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# The American Economic Review

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## THE RELATION OF SURPLUSES TO INCOME AND EMPLOYMENT DURING DEPRESSION<sup>1</sup>

Prevalent opinion is that business enterprise created employment during the depression by spending accumulated surpluses. Income estimates, which show that income paid out exceeded income produced, have been used to prove this view. But this is a misuse of these income data, which in reality indicate disinvestment, and hence less employment. Negative business savings, or the excess of income paid out over income produced, result from business losses and are not dependent upon accumulated surpluses. The reduction in surplus does not mean that business disbursed to the community a larger income than it received from it. In fact, business hoarding usually accompanies reduced surpluses and negative business savings. The latter reflects capital consumption—the making available for today's consumption of income that was produced yesterday.

The accumulation of surpluses may be inimical to the stability of the system as a whole by (1) increasing rigidities and (2) encouraging the payment of unearned dividends. The latter involves disinvestment at the very time when expansion is called for. The multiplier is a concept of dubious worth because additional consumption may be accompanied by either investment or disinvestment. A decline in the rate of investment is accompanied by unemployment because we do not increase consumption (except relatively) when our savings are falling.

### I

Previously accumulated corporate surpluses have been widely credited with having cushioned the shock of the depression. A recent study by the Brookings Institution is definitive on this point:

The truth of the matter is that just as American business enterprises had paid out something less than the amount of income produced during the prosperous years preceding 1930, they paid out more than was produced in the lean years of the depression. The following data compiled by the United States Department of Commerce show . . . (that) the aggregate income disbursed was in excess of that produced by almost 22 billion dollars. . . .

In conclusion the analysis states that "*in the absence of accumulated surpluses it is obvious that the volume of disbursements would have been limited to the actual amount of income produced.*"<sup>2</sup> Far from being obvious, this assertion is, in fact, inconsistent; for it says, in effect, that business enterprise cannot suffer a loss without previously accumulated surpluses. The point deserving emphasis is quite different—namely, that business enter-

<sup>1</sup> I am obliged to Mr. H. Gordon Hayes, Mr. Robert Nathan, and Mr. Peyton Kerr for helpful discussion of this paper.

<sup>2</sup> *The Undistributed Profits Tax*, M. Slade Kendrick, 1937, pp. 89, 90. (Italics mine.)

prise cannot suffer a loss without paying out a larger income than has been produced. The issue raised by this disagreement is no mere quibble regarding accounting terminology; it is of interest to those concerned with the nature of income; and, more important, it is vital to public policy.<sup>3</sup>

The most elementary facts cited in the Brookings study itself will show the error of their conclusion. From 1929 to 1933, the surplus account of all non-financial corporations was reduced \$15 billions; yet, during the same period, the excess of income paid out over income produced was \$25 billions.<sup>4</sup> Thus the entire \$25 billion excess of disbursements over income produced could not have been dependent upon previously accumulated surpluses, which were reduced only \$15 billions. There can be no doubt that a substantial portion of the excess of income paid out over income produced is attributable to corporations which did not have large surpluses and which did not pay dividends at all. Also, corporations make numerous changes in their balance sheets which alter the surplus but are not reflected in the income statement: these include capital gains and losses, write-ups and downs, adjustments in reserve accounts, etc.

## II

Just what is the meaning of negative business savings and what relation do they bear to (a) employment and (b) the reduction of surpluses during depression?

Income produced is the really basic category in the sense that the level of employment depends upon it. Income paid out is a subdivision, not a parallel concept, and represents the income made available for consumption—that part of the total income flowing into the hands of individual consumers.

TABLE I. ESTIMATES OF NATIONAL INCOME<sup>1</sup>  
(Billions of dollars)

	1929	1930	1931	1932	1933	1934	1935	1936
Income produced.....	80.8	68.0	53.5	39.6	41.8	49.6	54.9	63.8
Income paid out.....	78.2	72.9	61.6	48.5	44.9	51.0	54.6	62.1
Total business savings....	2.6	-4.9	-8.1	-8.9	-3.1	-1.4	0.3	1.7

<sup>1</sup> Source: see note 6.

From the standpoint of economic analysis, income paid out is less significant than income produced. The level of employment is not immediately dependent upon income paid out (received by individuals) because a part of

<sup>3</sup> Thus, Senator Byrd's recent pronouncement: "Until that law (the undistributed profits tax) is repealed, there is no way in which reserves can be accumulated to maintain employment and wage levels during times of depression." Reported in the *New York Times*, January 27, 1938.

<sup>4</sup> *Dun's Review*, September, 1937, p. 31. The income estimates are those of the Department of Commerce. Both are cited by the Brookings study, pp. 89, 90.

the income paid out in one accounting period may have been produced in an earlier period, or less than the total income produced (value of net product) may be paid out during the current accounting period.<sup>5</sup> The difference between income produced and income paid out has been called business savings, positive or negative, and represents changes in the net worth of business enterprise: positive savings are additions to capital out of earnings; negative savings are business losses and unearned dividends.<sup>6</sup>

Since dividends are included in income paid out, business savings are not identical with profits but represent the addition to net worth of business enterprise—the difference between profits and dividends. Business savings are estimated by first adjusting net income of business to eliminate profit and loss from sale of assets, and then subtracting dividends from the adjusted net income. The estimates of business savings represent additions to fixed or working capital and may, of course, take the form of any type of asset, such as cash or securities, inventories, accounts receivable, additions and betterments, reduced debts, etc.

When enterprise is in the red and is paying out its net worth, business savings are, of course, negative. These estimates are obtained by adding dividends to business losses (in the tax collectors' definition of the term) that have been adjusted by removing deductions for losses from sale of assets. Thus, while negative business savings result from business losses and the payment of dividends, they may represent decreased cash and securities, reduced inventories, lower prices on inventories held, write-offs for bad debts, lower valuation on assets, and failure to replace equipment and keep up plant. Negative business savings result from the fact that the value of net product (income produced) is less than the total income disbursed.

Increasing or decreasing a firm's debt affects business savings only to the extent that net worth is affected. In the creation or retirement of a debt both sides of the firm's balance sheets are altered, and hence both income produced and income paid out are increased or decreased, thus leaving the firm's net worth (and hence business savings) altered only by the gain or loss.

Business savings, positive or negative, do not show either the aggregate or the net investment in the whole economy, but only that part of investment which represents changes in the net worth of enterprise. If it is assumed that investment is increased by one billion dollars through the expansion of bank credit and the sale of bonds, there is, as a consequence, a change in business

<sup>5</sup> Of course, the use which individuals make of their income influences the income produced and hence employment.

<sup>6</sup> Income paid out is estimated directly, but income produced is obtained indirectly by adding business savings, which is estimated directly, to the income paid out. The estimates of income paid out represent "the payments to, or receipts by, individuals in the form of wages, salaries, interest, dividends, entrepreneurial withdrawals, and net rents and royalties"—in other words, all forms of income received. *National Income, 1929-1936*, U. S. Dept. of Commerce, GPO, pp. 11, 14, 24.

*savings only to the extent that the additional value of net product is more or less than the additional income received by individuals.*

One gets the impression from the Brookings study and from others cited that a vast dishoarding was taking place which served to mitigate the evils of depression and to stimulate recovery. Nothing of the sort happened. In fact, corporations were hoarding a part of their current receipts, as is shown by the reduction in their bank loans. Thus, in the most significant economic sense, less income was being paid out to the community than was received from it. But this fact—the hoarding of current receipts to reduce debts, rather than spending to produce goods—is *not* measured by business savings. For in hoarding, *both* income produced and income paid out are reduced.

If, instead of reducing loans, inventories and fixed capital had been maintained, only then would employment have been maintained. But this would have appeared in the income estimates in the form of business savings, positive or negative, only to the extent that the value of the products so manufactured was more or less than the costs expended. Thus negative business savings are largely irrelevant to the question of hoarding and are no index of the contribution of business to recovery.

Hoarding or dishoarding affects both the income produced and the income paid out. Changes in business savings reflect only the changes in net worth. Negative business savings, then, in no way indicate that business is disbursing more money income to the community than has been received from it. In fact, it appears probable that at a time when the net worth of the firm is being reduced by losses (*i.e.*, when business savings are negative), the concern will be disbursing less money income to the community than it received because, at such a time, it will usually be reducing its debts. Assume that a corporation begins the year with \$50,000 cash and ends the year with \$250,000 cash. At the same time, capital equipment which depreciated \$300,000 has not been maintained. Thus negative business savings are \$100,000. Since the cash has been increased, the concern has disbursed more than was produced only in terms of goods and services.

### III

This leads us to examine also a more fundamental and more significant question. What rôle do reserves and surpluses play in the stabilization of an economic system? The belief prevails that, by building surpluses, business enterprise can mitigate the instability in our economic life—that the spending of these reserves during depression reduces unemployment.

The prevalent explanation of how, during depression, surpluses contribute to recovery was first made, so far as I am aware, by Colonel Leonard Ayres. The annual excess of income paid out over income produced during the depression is shown by Colonel Ayres under the caption "Billions Spent for Recovery."

The truth is that the spending of business savings has constituted a far larger contribution toward staying off national disaster during this depression than has come from federal expenditures, or from any other sources.<sup>7</sup>

Similar interpretations have become common. Thus the National Industrial Conference Board says:

Without reserves accumulated in profitable years, corporations will reduce payrolls and dividends earlier and more drastically, thereby accentuating business decline. . . . In the recent period of depression many corporations drew on surplus and reserves for the purpose of maintaining payrolls, for meeting other current expenditures, and in order to pay dividends. . . . The experience in the recent depression, during which surplus and reserves served as a stabilizing influence . . .<sup>8</sup>

Unfortunately, no one has troubled to show the process by which surpluses contributed to recovery or how the excess of income disbursed over income

TABLE II. CASH AND SECURITIES OF ALL NON-FINANCIAL CORPORATIONS<sup>1</sup>  
1929-1933 (end of year)  
(Millions of dollars)

	1929	1930	1931	1932	1933
Cash.....	7,900	7,805	6,495	6,337	5,984
Tax-exempt investments....	2,958	2,616	2,607	2,733	2,839
Other investments.....	21,824	29,286	24,755	27,417	24,687
Total.....	32,682	39,707	33,857	36,487	33,510

<sup>1</sup> From *Statistics of Income* for 1929 through 1933, U. S. Treasury Department, Bureau of Internal Revenue, Washington.

produced represents a contribution to reemployment. Though quite generally referred to,<sup>9</sup> nowhere does one find an explanation of how that effect is produced.<sup>10</sup>

One supposes the consensus to be that the depression is cushioned and

<sup>7</sup> *Cleveland Trust Company Bulletin*, March 15, 1936, p. 3.

<sup>8</sup> *Conference Board Bulletin*, December 13, 1937, pp. 105, 111. See also Alfred G. Buehler, *The Undistributed Profits Tax*, ch. iv, *passim*. It is interesting to note the resemblance of the view which is here under criticism to the wage-fund theory. It is now said by some that wages and employment in depression are determined by the fund of invested capital, and by others that they are increased by the fund of accumulated surplus. The fact is that wages are paid out of current income. The level of employment depends upon the level of production which, in turn, depends both upon the level of consumption and upon investment. Now disinvestment may be described as reducing the level of employment which corresponds to any given level of consumption, or as raising the level of consumption corresponding to any given production level. But disinvestment cannot, as has been asserted, raise the level of current employment.

<sup>9</sup> By senators, by corporation presidents (see *Steel*, December 20, 1937), by bank letters, and by research organizations.

<sup>10</sup> A note by the author in an early issue of the *Marxian Quarterly* deals with some fallacies regarding the corporate surplus and touches on the present treatment.

employment increased by the dishoarding of cash and the sale of securities.<sup>11</sup> But the notion that, during a depression, all business enterprise dishoards cash on a large scale is mistaken, as is the further belief that dishoarding cash is shown by either (a) the excess of income paid out over income produced or (b) a reduction in surplus. Some one, after all, must hold the nation's cash and securities in both prosperity and depression, and it is unreasonable to suppose that *all* business enterprise can reduce either its cash or securities on the scale that has been inferred from the income estimates.

Between 1929 and 1933, the cash of all non-financial corporations was reduced by less than \$2 billions, "tax-exempts" remained about the same, and other investments increased almost \$3 billions (Table II). There were changes in reporting procedure during this period, so that these data can be taken only as a rough index. Also, it is difficult to determine just what is involved in "other investments," the great bulk being unmarketable securities. But, despite these limitations, it seems fair to conclude that only an insignificant portion of negative business savings is due to depleted cash and securities. Likewise, the \$15 billion reduction in surplus does not represent the dishoarding of cash and securities. In any case, it is obvious that a firm can dishoard its cash without a previously accumulated surplus.

It is also true that a firm can disburse a larger income than has been produced without reducing its cash or securities. When we increase our capital, less income can be made available for consumption (paid out) than is produced; when we eat up our capital, more income can be made available for consumption (paid out) than is produced. It does not require a profound knowledge of either accounting or economics to recognize that neither process is dependent upon an accounting surplus.

A little reflection will show the reader, I believe, that there is nothing about this process of disinvestment which adds to current employment. There is a cushioning of the depression only in the sense that more can be consumed (or be made available for consumption) than is produced—but this is a deepening of today's unemployment by consuming out of yesterday's employment instead of today's.

The farmer who eats the apples stored in the cellar (inventories) and who fails to repair the barns and fences (fixed capital) is paying out in excess of the income produced. The obvious fact is that he has less employment than if he were to maintain inventories, buildings, and equipment. The excess of income paid out by business enterprise over income produced during the depression reflects the reduction in inventories and, mainly, the depreciation on fixed capital. In addition, the estimates of income are complicated by price

<sup>11</sup> E.g., "The ability of corporations to pay out in depression years billions which were not earned in those years proves that a large portion of the surpluses earned in the boom years were not used for expansion." Seth Axley, "Public Extravagance, Not Over-Saving, the Logical Cause of Unemployment," *The Annalist*, vol. 50, no. 1289, October 1, 1937, p. 532.

changes, so that, in part, the apparent excess disbursement may reflect only lower prices on inventories held and revaluation of other assets.

#### IV

The life of capital assets is limited—hence charges are made for depreciation. The accounting treatment is to insure that the cost be charged to operating expense over the estimated life of the asset. There is no implication of replacement. During depression, a firm which disburses all its current receipts without maintaining its assets will suffer a loss and, as a consequence, will pay out a larger income than has been produced: disinvestment, or negative savings, occurs.<sup>12</sup> Negative savings take the form of impaired plant and equipment and result from the fact that the value of net product is less than the income disbursed. The business loss—the reduction in net worth—is reflected in the impaired capital.<sup>13</sup> In order to understand this simple process, it is important to be clear about two things: (1) The source of all income paid out is current receipts. (2) Negative business savings result from the failure to maintain assets. If this is clear, it will be seen that there is nothing about the process of disinvestment which makes available additional funds for hiring labor and promoting recovery. Negative business savings reflect less, not more, employment.

The fallacy of the view that negative business savings contribute to recovery is seen by comparing the year-to-year changes. Since negative business savings were \$8.9 billions in 1932 and only \$3.1 billions in 1933 (Table I), business contributed, according to Colonel Ayres's reasoning, more than two and one-half times as much toward recovery in the earlier year. The fact is, however, that the decline from 1932 to 1933 in negative business savings is a consequence of income produced having increased faster than income paid out (*i.e.*, of smaller business losses); it reflects recovery and greater employment (falling disinvestment), not a smaller contribution to recovery and less employment.

The Ayres view not only has the meaning backwards—it also misses the relevant relationship. It is not whether business savings are positive or negative, but whether they are rising or falling, which is relevant to *increasing* production and employment. Decreasing (increasing) negative business savings and increasing (decreasing) positive business savings show the same change, to wit, increasing (decreasing) production and employment. The error lies in mistaking a point for a process. While business savings were negative in each year of the period 1932-1935, they were declin-

<sup>12</sup> Negative business savings may also result from the payment of unearned dividends (discussed below). Thus, while all losses represent negative business savings, not all negative business savings represent losses.

<sup>13</sup> Another accounting source, though unimportant, of negative business savings is the write-offs for bad debts.

ing. Thus, though disinvestment is indicated at any point, the *process* was one of investment—hence, of increasing employment.

Just as depreciation charges are the source of negative business savings which represent a disinvestment in fixed capital, so also negative business savings may result from a reduction in working capital. A firm can, by depleting its stock of goods, pay out a correspondingly larger income than is produced. Again, the source of the income paid out is current receipts from the liquidation of assets. But it is obvious that there is less current production and employment for any given level of consumption when a part of that consumption is out of inventories.

These estimates overstate the volume of negative business savings, due to (1) the practice of writing down the price of inventories and (2) the use of the straight line in figuring depreciation. Since prices were declining, replacements could have been made at lower prices. Thus, in the mechanics of estimating, the figures for income produced are too low because the volume of negative business savings is too large. Due to price declines, we were not eating into previous savings as fast as the estimates indicate.

According to Mr. Kuznets' most recent work concerning the influence of revaluation of inventories upon business savings,<sup>14</sup> the aggregate negative business savings during the depression would have been reduced by \$5 billions, or less than one-fifth.

In order to eliminate price changes and to clarify the concepts, let us assume for a moment a barter economy: the business enterprise of the nation creates 50 units of goods and services and in the same period distributes 55 units to the employed agents. Obviously, this is possible only by distributing among the employed agents 5 units of capital equipment. It would be logically conceivable for the individual recipients to save the 5 units and thus for the capital equipment of the nation to remain unchanged. From this we can see that income paid out need not represent income actually consumed. But, of course, in a monetary economy the physical equipment is not distributed to the employed agents; what happens is that the equipment is not maintained. Hence there is capital consumption.

If, now, we suppose that \$55 billions are paid out by all corporations, which, as a consequence, suffer a loss of \$5 billions, then the income produced is \$50 billions. The corporations would have been able to disburse the \$55 billions without any changes other than letting their capital equipment run down to the extent of \$5 billions. In such a case, the nation has consumed capital to the extent of \$5 billions. It scarcely seems necessary to repeat that this process is neither limited by nor dependent upon an accounting surplus. Furthermore, it does not increase employment, but reflects a lower level of employment, that is, *lower than would have been required for the same level of consumption if the capital assets had been maintained*. Thus negative business savings, which reflect capital consumption, indicate the relative in-

<sup>14</sup> Simon Kuznets, *National Income and Capital Formation, 1919-1935* (1937).

crease of consumption *at the expense of* current production and employment.

Since these comments have been concerned with the claims made for surpluses and negative business savings, they have, perforce, dealt with broad generalities. A line of modification is in order. We have seen that rising negative business savings represent disinvestment and hence falling employment. But if we assume that the economy is operating at partial capacity and that all current receipts are spent on wages, with no return to owners,<sup>15</sup> then negative business savings need not reflect lower employment. But it is clear that they can never be regarded as *increasing* employment.

As to the surplus, it would be possible, no doubt, to postulate conditions where it could be used to increase employment (but I think that such conditions would be quite contrary to actual behavior). This argument has been merely that the data adduced do not support the conclusions which were cited.

## V

It may be true, of course, that accumulated surpluses fortify individual firms against bankruptcy, but care should be exercised not to confuse liquidity with an accounting surplus. There is nothing in the nature of a surplus account, *per se*, which enables a concern to withstand depression. Rather, it is the liquidity of the firm's assets which largely determines its fate. It is entirely possible for a firm with no surplus to survive, while suffering losses for several years, if a substantial portion of its assets is liquid. On the other hand, however large the corporation's surplus, it may not survive if its assets are fixed and not subject to sale or loan.

The surplus is a legal requisite to the *declaration* of unearned dividends, but the ability of the firm to *pay out* any and all funds under its control is not so limited. The funds disbursed as dividends during the recent depression could have been paid out for maintenance, expansion, or current production. And the volume of available funds was not any larger because there happened to be a surplus on the books rather than some other form of equity.

The data of accounting have a highly conventional meaning. The surplus is an accounting device by which additions are kept separate from the original capital—an artificial division of proprietorship which sets a limit to the dividends that can *legally be declared*. Dividends are not, however, *paid out* of surplus—an absurd statement. Nothing can be *paid out* of surplus; payments must be out of cash. Hence the source of all income paid out in both prosperity and depression is receipts from current business, from the sale of assets, and from loans.<sup>16</sup> Now, it goes without saying that a firm can

<sup>15</sup> It is for precisely this reason that the disposition to pay unearned dividends is inimical to the stability of the system. See below.

<sup>16</sup> It is the belief of some that the surplus is represented by cash and securities which are dishoarded in depression. But this is not the case. From 1929 to 1933, surpluses were reduced \$15 billions while cash and securities were increased almost \$1 billion (cash items alone were reduced \$2 billions; see Table II).

disburse its entire receipts and borrowed funds whether or not there is an accounting surplus. It is thus elementary that the paying out of all receipts is nowise contingent upon a surplus. Whether paying out unearned dividends is beneficial depends upon how the funds would otherwise be used.

The commonly held view that the payment of unearned dividends is a stabilizing influence is a dubious one. Consider the depression experience of American Telephone and Telegraph Company, a favorite example, which naturally was charging a huge volume of current receipts to depreciation. Business prospects, however, made it unwise to spend currently on maintenance the cash receipts charged to depreciation. It is thus easily possible that cash from current receipts was used to pay dividends in excess of earnings.

The effort of corporations to stabilize the dividends of stockholders during the depression may have had an adverse effect upon the economic system as a whole. Lower interest rates and readjustments of costs during a slump should have the effect of inducing investment, but the disposition to pay dividends by disinvesting is an offsetting factor which may *exercise an adverse influence* upon business stability. Similarly, in periods of prosperity, the corporation, by plowing back profits, increases the rate of investment at a time when retardation rather than acceleration is called for.<sup>17</sup> The whole point is that in a depression the enterprise should be borrowing and investing at the reduced interest rates. Instead, it is disinvesting, that is, *paying out*—liquidating fixed and working capital and paying it out as dividends. By the same token, the enterprise is over-investing in the prosperity phase; by the self-allocation of earnings, the higher interest rates are evaded and the stockholders go begging. The disposition to pay unearned dividends helps bring about disinvestment. In a situation where the stability of the system requires that corporations increase investment and where incentives to such an increase exist in the form of reduced interest rates and reduced costs, the result actually is disinvestment because of the disposition to pay dividends. In order to plow back earnings in prosperity and to pay them out in depression, it is necessary to over-invest at the peak and to disinvest at the trough of the cycle. The self-allocation of funds in this manner by corporations nullifies the beneficial effect of a flexible interest rate and is for this reason inimical to stability.

The payment of unearned dividends may, of course, be of some benefit to

<sup>17</sup> See Alvin Hansen, *Economic Reconstruction* (Report of Columbia University Commission), p. 220. The truncated argument here assumes familiarity with the work of Wick-sell. In point of fact, it is easily possible to exaggerate the rôle of unearned dividends. Income data clearly show that the great bulk are received by individuals in the higher brackets. The payment or non-payment of dividends may be mostly a matter of whose debts are to be retired, those of the individual or those of the corporation. There is no way of judging whether, if unearned dividends were not paid, the corporation would hoard more or less than would the stockholders if they were paid. In order to reduce instability, it is requisite that business enterprise spend its receipts in producing goods and services instead of paying unearned dividends or reducing debts.

the individual corporation. So, also, a surplus may save a corporation from bankruptcy. But it does not follow that either stabilizes the system.

Aside from this question of interest rates, there may be a legitimate difference of opinion concerning the effect of accumulated surpluses on the economic system as a whole. My own notion is that the rigidities in the system are likely to be increased. For, by this means, the position of the management and bondholders is rendered more secure, with the result that production can be shut down until better times appear. Moreover, reorganizations and other cleansing and beneficial effects of depression are more successfully resisted. One of the striking and unfortunate characteristics of the recent depression was the failure to scale down capital values. Large surpluses may be conducive to the longevity of some individual corporate units and some particular group of managers; but, for just that reason, instability of the system is thereby increased. Securely intrenched behind substantial surpluses, it seems likely that corporate managers are less willing to accept quickly price corrections and other reorganizations. Fixed obligations can be met over long periods by disinvestment. Thus it appears probable that the practice of building large surpluses is unfavorable to stability on two counts: first, it has the effect of lowering the rate of interest in prosperity and raising it in depression; second, it aids and abets corporate managers in their disposition to resist the requisite adjustments and reorganizations by increasing rigidities and limiting the capacity of the system for correction.

#### *A Note on Government Spending and the Multiplier*

These misconceptions regarding negative business savings have been supported by comparison with government spending. Thus it is said that the excess of income disbursed over income produced has the same effects as government spending financed by borrowing.<sup>18</sup> But this is not the case. Government borrowing creates additional bank deposits; but negative business savings represent only a transfer from the corporation to individuals. Furthermore, in case public works are built by the government, there is an expansion in real investment which is quite the opposite of the disinvestment process that is indicated by negative business savings. In one respect, however, direct spending for relief may be analogous to negative business savings: both may represent a relative increase in consumption. The difference is that there is an *actual increase* in consumption as a consequence of government spending; but negative savings are a result of a *relatively greater decline* in production than in consumption.

When the additional consumption financed by government borrowing is effected by depleting inventories and equipment, it is analogous in this one

<sup>18</sup> A false analogy which appears to have support in one statement of Keynes: "Unemployment relief financed by borrowing is best regarded as negative saving." *The General Theory of Unemployment, Interest, and Money*, p. 109.

respect to negative business savings. But this is precisely the case where it is least effective in increasing employment. It has frequently been presumed that government spending would eventuate in disinvestment only under conditions of full employment, but there can be no assurance on this point. If, despite government spending, business enterprise still prefers to disinvest and reduce its debt, the consequence of the spending will be consumption out of inventories and equipment. It is for this reason that the multiplier appears to be a concept of dubious worth. In a rich nation, the range is so great from the highest rate of investment to the highest rate of disinvestment that the multiplier may be anything from a small fraction to a large whole number. This being true, it may take as much as \$7 billions of public spending to accomplish what seemed, on the face of it, to be the work of \$1 billion.

#### *A Note on Disinvestment and Unemployment*

This analysis suggests a final word on the relationship between unemployment and disinvestment, for I think it can be said that it is impossible to disinvest—or even to reduce the rate of investment—without unemployment. Orthodox thought has always assumed that if, for any reason, the rate of investment is to be reduced, consumption will be correspondingly increased, thus maintaining full employment. But is this in accord with common behavior? Do we increase consumption when our savings are being reduced? We must agree, I think, with Mr. Keynes that we do not. We save a larger part of our income when it is rising; only when our income is falling are we willing to reduce the rate of saving. Production and consumption move up and down together but at different rates, consumption changing more slowly in either direction.

The individuals of a nation are neither able nor willing to expand consumption absolutely while reducing saving; only if both are falling do they expand consumption relatively. So long as we disinvest (or reduce the rate of saving) only if our income is falling, disinvestment will always be accompanied by unemployment. If, for any reason,<sup>19</sup> investment is proceeding at a rate which cannot be maintained, it is then impossible to reduce that rate except by depression and unemployment. To avoid unemployment while reducing the rate of investment would necessitate that consumption be expanded relative to savings.<sup>20</sup> This, apparently, we are willing to do only when income is falling.

DON D. HUMPHREY

*Washington, D.C.*

<sup>19</sup> E.g., expansion of bank credit.

<sup>20</sup> The essence of my argument is that consumption is increased *relative* to saving only when *both consumption and saving fall*. Orthodox thinking has usually assumed that consumption can be expanded *absolutely* while saving falls.

## BORROWING IN THE MARKET BY THE FEDERAL RESERVE BANKS: AN APPRAISAL OF A POSSIBLE CONTROL DEVICE

Although the federal reserve authorities have at their disposal a wide selection of control devices, consideration should be given to the possibility of borrowing in the money market. Professor Viner has pointed out the potentialities of this weapon and has commented on its use by the Bank of England. A review of the Bank's experience with this control technique indicates that it is a powerful selective means of tightening the money market. It may supplement open-market sales of securities or may serve at times when that particular device cannot be used. The federal reserve banks might find borrowing in the market useful, especially since the problem of monetary control in the future will probably be the restriction of expansion of bank deposits. Since a period of experimentation must precede the regular use of a new instrument of control, it is urged that the necessary legal and administrative details be worked out so that the instrument may be available if needed.

In view of the multiplicity of control techniques possessed by the central banking authorities of the United States, the suggestion that still another be adopted may appear to be unwarranted. Only recently the variable reserve ratio was added to an already long list.<sup>1</sup> Nevertheless, the available means of control are not more than adequate for making the appropriate monetary policy effective. Although the American authorities have deliberately copied, and in some cases unknowingly rediscovered, the mechanisms used by the Bank of England in the course of its long history, one of the most important of the Bank's weapons has not been employed—namely, borrowing in the market.<sup>2</sup>

Because of the large part played by open-market operations in the United States,<sup>3</sup> it may be profitable to consider in detail this particular control device, which may be classified as a species of open-market operations. The Bank of England has used borrowing in the market on occasion with remarkable effectiveness; Professor Viner has suggested that it might well be adopted by the federal reserve authorities, pointing out its thoroughly respectable lineage.<sup>4</sup>

An examination of the Bank of England's utilization of this instrument of control may prove helpful in evaluating its potential usefulness to the federal reserve system. Therefore it is proposed to sketch the use made of borrowing by the Bank, and then to examine the question of whether or not the federal reserve banks could apply this control device to advantage. The

<sup>1</sup> L. L. Watkins, "The Variable Reserve Ratio," *Jour. of Pol. Econ.*, xlv (1936), pp. 339-73, especially p. 353 ff.

<sup>2</sup> See J. Viner, *Studies in the Theory of International Trade* (New York, Harper, 1937), p. 254 ff., on the point that twentieth-century banking control techniques are not new discoveries.

<sup>3</sup> Cf. J. M. Keynes, *Treatise on Money* (New York, Harcourt Brace, 1930), ii, pp. 250-60; C. O. Hardy, *Credit Policies of the Federal Reserve System* (Washington, Brookings Institution, 1932), pp. 228-33; J. H. Williams, "The Banking Act of 1935," *Am. Econ. Review Suppl.*, xxvi (1936), p. 102.

<sup>4</sup> J. Viner, "Recent Legislation and the Banking Situation," *Am. Econ. Rev. Suppl.*, xxvi (1936), p. 118.

proposal made by Professor Viner in 1935 appears to be of sufficient importance to justify exploring this topic, especially in view of the fact that the United States will be confronted for some time to come with a plethora of funds in the money market.<sup>5</sup>

Everyone is familiar with the rôle of the central bank as a lender; but very little attention appears to have been given to the potentialities of its rôle as a borrower. In obtaining funds by borrowing, the central bank may be desirous of strengthening its own cash position or of removing funds from the market. The Bank of England has used borrowing for both of these purposes, as will be shown in the next section. A central bank may borrow at home or abroad. Again, the Bank of England has done both. The principal emphasis in this paper will be placed upon domestic borrowing for the purposes of control. By restricting discussion to this sphere, much extraneous material may be eliminated.<sup>6</sup>

If a central bank borrows in the market, it receives funds either in the form of cash or in the form of its own notes, or more typically, in the form of drafts against itself. In any case its reserve ratio tends to rise. With regard to the possible use of borrowing by the federal reserve banks, it is sufficient to treat the payment medium as deposits in the reserve banks. A loss of member-bank reserves would tend to result from borrowing in the market. This qualification does not apply to borrowings in the early years by the Bank of England. Until well into the nineteenth century the Bank appears to have borrowed primarily to obtain additional reserves. Thereafter, borrowing was used to absorb funds for purpose of control, and the net result was essentially the same as would be expected in the United States.

In using borrowing as a control device, a central bank deprives the market of funds. Because of its unique position as the holder of reserves of the commercial (member) banks, a reduction of bank reserves is induced. Obviously, borrowing in the market by agencies other than the central bank does not produce this effect.<sup>7</sup> Borrowing in the market has both quantitative

<sup>5</sup> I realize that in portions of this paper I am merely duplicating Professor Viner's work. I have however, tried to bring in additional material on Bank of England operations, particularly for the period after 1860; I have also endeavored to consider the position of the federal reserve banks somewhat more fully. My debt to Professor Viner is heavy, and I trust that he will not regard my elaboration of this topic as anything more than an attempt to draw the attention of economists to a matter deserving further consideration.

<sup>6</sup> The Bank of England was obliged to borrow to obtain cash on several occasions, principally because until rather late in its career it failed to maintain excess reserves to meet emergencies. Cf. J. Viner, *Studies in the Theory of International Trade* (New York, Harper, 1937), pp. 254, 264 ff. Borrowing abroad is associated with the meeting of emergencies in the field of international management. Domestic and international management may be conveniently separated for purposes of analysis even if the monetary authorities as a matter of fact are obliged to carry on both concurrently.

<sup>7</sup> This statement should be qualified by the observation that an institution which holds balances at the central bank can produce the same effect. For example, the Treasury could induce a contraction of member-bank reserves by borrowing in the market and holding the proceeds in the form of deposits in the reserve banks.

and qualitative aspects, for it may serve to check the flow of funds into a use not acceptable to the central bank as well as to reduce bank reserves.

### *The Example of the Bank of England*

The Bank of England found borrowing to be a useful device from almost the outset of its existence. There are repeated instances of its having gone into debt; and, although the record is not as complete as one might desire, there is no mistaking the point that borrowing was often resorted to. Thoroughly systematic use of this type of transaction is found only in the last hundred years. Recently the device has been held in abeyance.

In 1696 the Bank was hard pressed as a result of the parliamentary authorization of Chamberlain's land bank and had recourse to borrowing £100,000 from the Bank of Amsterdam and £440,000 in two separate loans from its subscribers. Its own stockholders appear to have held substantial amounts of cash and were able to add to the Bank's cash reserve. The loans were apparently repaid.<sup>8</sup> Again in 1707 panic conditions developed, and the Bank sought assistance in the domestic market, borrowing from nobles, merchants, and private individuals and also calling upon its shareholders.<sup>9</sup> On other occasions in the eighteenth century the Bank seems to have used systematic borrowings to adjust its position.<sup>10</sup> The record of the Bank's operations in the eighteenth century is by no means complete, but there is no doubt that the instrument was used, although the Bank certainly did not make the most of its power to control the market.<sup>11</sup>

Extensive use of this technique was to come only in the latter half of the nineteenth century; but there is sufficient evidence to indicate that the Bank continued to borrow from time to time during the first half of the century. In 1825, the Bank borrowed from the Bank of France, which was to come to its assistance in subsequent panics.<sup>12</sup> It was only in 1833-34 that the Bank adopted the practice of "borrowing on consols" for the express purpose of controlling the market.<sup>13</sup> This was later to play an important part in regulating the supply of funds. In 1839, during one of the most serious of frequent panics, the Bank again turned to Paris and Hamburg.<sup>14</sup> An

<sup>8</sup> For a description of this episode, see A. Andréadès, *History of the Bank of England*, 2nd ed. (London, P. S. King, 1924), pp. 108-09, 113.

<sup>9</sup> *Ibid.*, p. 121.

<sup>10</sup> J. Viner, *Studies in the Theory of International Trade*, pp. 256-57.

<sup>11</sup> W. T. C. King, *History of the London Discount Market* (London, Routledge, 1936), pp. 14, 83-84. King notes especially that Treasury operations were a disturbing element.

<sup>12</sup> J. Viner, *op. cit.*, pp. 273-75. E. T. Powell, *Evolution of the Money Market* (London, The Financial News, 1915), p. 329.

<sup>13</sup> W. T. C. King, *op. cit.*, p. 116. "Borrowing on consols" is the descriptive phrase applied to a sale of consols for cash and a simultaneous purchase of consols on account. Viner suggests that this operation should be regarded as borrowing. *Op. cit.*, p. 261.

<sup>14</sup> E. T. Powell, *op. cit.*, p. 268, pp. 367-68. Actually the 1839 transaction took the form of the Barings' drawing bills which were discounted abroad. T. E. Gregory says that borrowing from merchant bankers also took place, *An Introduction to Tooke and Newmarch's A History of Prices* (London, P. S. King, 1928), p. 60.

outflow of gold in 1847 caused the Bank to borrow £1,275,000 on consols. The situation was very tense, and rationing as well as an unusually high discount rate was applied. The immediate crisis passed, but conditions remained critical.<sup>15</sup> Two years later, according to Gregory, the Bank again borrowed in the market.<sup>16</sup> So far as the evidence goes, it seems to indicate that in the first half of the nineteenth century the Bank used borrowing largely as an emergency device. Its failure to use its powers to better advantage has been sharply commented upon by Professor Viner.<sup>17</sup>

In the second half of the century the Bank used borrowing as a control device, depriving the market of funds in order to make the Bank rate effective. In 1874, the Bank borrowed on consols for this purpose.<sup>18</sup> Again during the 1880's, the market rate was frequently below the Bank rate, and "the Bank was obliged to resort more and more frequently to the ancient, but unsatisfactory, expedient of 'borrowing on consols.'" <sup>19</sup> In 1889, the situation was especially critical, the Bank being out of touch with the market; and special steps were taken by it to obtain control of surplus balances that were available to the market. In commenting on this situation, King again makes the point that borrowing on consols was "clearly inadequate."<sup>20</sup> The next twenty years saw extensive use of the device of borrowing in the market. Fortunately this period has been analyzed carefully by a recent writer.<sup>21</sup> Sayers summarizes the Bank's policy in this period with these words:

Down to the outbreak of the Great War, however, the Bank continued to control the market when the external situation called for control, mainly by borrowing in the market and securing the control of customers' funds previously lent out in the market.<sup>22</sup>

He distinguishes three types of borrowing: (1) borrowing in the market; (2) borrowing from the clearing banks; and (3) borrowing from special depositors.<sup>23</sup> A carefully formulated plan was adopted for dealing with the problem of surplus funds. The operations were not always the same; the borrowing operations were directed to absorbing funds at the source. In 1890-91, Governor Lidderdale obtained coöperation of the India Council, and funds previously placed in the market were loaned to the Bank.<sup>24</sup> Similarly in 1905-06, the Bank got control of Japanese funds, the volume of which was large as a result of Japan's favorable international position after the Russo-Japanese War.<sup>25</sup> The borrowings from the clearing banks came

<sup>15</sup> King, *op. cit.*, p. 139-40.

<sup>16</sup> T. E. Gregory, *Select Statutes, Documents and Reports Relating to British Banking 1832-1928* (Oxford, Oxford Univ. Press, 1929), i, p. xl.

<sup>17</sup> *Op. cit.*, p. 254.

<sup>18</sup> *Ibid.*, p. 296.

<sup>19</sup> W. T. C. King, *op. cit.*, p. 287.

<sup>20</sup> *Ibid.*, pp. 302-305.

<sup>21</sup> R. S. Sayers, *Bank of England Operations, 1890-1914* (London, P. S. King, 1936), pp. 34-43, 118-19, 124, 128. Sayers' information is based largely on the *Economist* and *Statist*. The Bank itself has never seen fit to reveal these operations.

<sup>22</sup> *Ibid.*, p. 48.

<sup>23</sup> *Ibid.*, pp. 40-41.

<sup>24</sup> *Ibid.*, pp. 34-43.

<sup>25</sup> *Ibid.*, p. 42.

in 1905-06 and were regarded by the financial press as a new departure.<sup>26</sup> Direct borrowing in the market, in the sense of borrowing from bill brokers and finance houses, took place in 1890, 1892, 1893, in the period 1897-1906, and in 1909-11.<sup>27</sup> These borrowings according to Sayers, were not the same as "borrowing on consols." The Bank deposited collateral, showed bankers deposits reduced, and a liability to "sundry creditors."<sup>28</sup> The mechanism was never officially described in detail, but Sayers' statement seems to be confirmed by King's remark that in 1908 "such 'borrowing' [selling consols spot and buying on account] had not occurred for 'several years.'"<sup>29</sup>

There can be no doubt that the Bank made extensive and effective use of its power as a borrower to control the money market in the 1890-1911 period.<sup>30</sup> Unfortunately the record is not complete, and, as Sayers points out, the history of this period must be constructed from unofficial sources. "Borrowing on consols" was in large part displaced by true borrowing from bill brokers, finance houses, banks, and those who normally placed funds in the market.<sup>31</sup> The aggressive position taken by the Bank at the turn of the century stands in sharp contrast to its policy in the early part of the nineteenth century.

During the period of the World War, the Bank again found that borrowing in the market could be used to advantage in absorbing surplus funds. These operations have been considered at length by Harris and are commented upon by Hawtrey and Dodwell.<sup>32</sup> The Bank paid interest on "special deposits" of domestic and foreign institutions, although it did not abandon its policy of refusing to pay interest on ordinary deposits. The operations of the war period are not particularly striking when placed against the background of the Bank's procedure in the preceding two decades.<sup>33</sup> Perhaps the treatment of special deposits as a borrowing operation may appear extraordinary in view of the sharp distinction usually made between a bank's indebtedness to creditors and to depositors. However, the classification of indebted-

<sup>26</sup> *Ibid.*, pp. 37-38. E. T. Powell, *op. cit.*, pp. 651-52.

<sup>27</sup> R. S. Sayers, *op. cit.*, p. 34.

<sup>28</sup> *Ibid.*, p. 35. The "borrowing on consols" operation appears to be similar to a sale under repurchase agreement.

<sup>29</sup> W. T. C. King, *op. cit.*, p. 315.

<sup>30</sup> J. M. Keynes, however, objects to the general policy of restriction followed in the early nineties, *op. cit.*, ii, pp. 164-70. Whether or not the monetary policy adopted by the Bank was the proper one is not in dispute here. The point to be emphasized is that the Bank made effective the chosen policy.

<sup>31</sup> Sayers is quite explicit on this point and observes that many persons have thought that "borrowing on consols" was the only device used. *Op. cit.*, pp. 27-30.

<sup>32</sup> S. E. Harris, *Monetary Problems of the British Empire* (New York, Macmillan, 1931), pp. 46-59, 149-50; R. G. Hawtrey, *The Art of Central Banking* (New York, Longmans Green, 1932), p. 152; D. W. Dodwell, *Treasuries and Central Banks* (London, P. S. King, 1934), pp. 73-74.

<sup>33</sup> Nonetheless, Hawtrey is probably correct in describing what took place as "an exceptional procedure." *Op. cit.*, p. 152. It should be noted that the comparative ease of the money market was caused largely by Treasury borrowing at the Bank.

ness to special depositors as borrowings seems entirely logical. In this matter, Sayers' example is followed.

In the post-war years, the Bank has not had recourse to borrowing in the market. The Treasury-bill mechanism has apparently been adequate. According to Sir Ernest Musgrave Harvey, "borrowing on consols" is "a relic of past history."<sup>34</sup> He also explained that the Bank does not carry accounts for foreign governments, which presumably would rule out the operations such as those undertaken by the Bank in the 1890-1911 period when it carried foreign government balances.<sup>35</sup> If foreign government balances in the London market were to become a disturbing element, presumably the Bank would work through foreign central banks rather than directly with the governments themselves.

#### *Other Central Banks*

Space does not permit an examination of the use of this device by other central banks, although there appears to be little indication that borrowing is important. One authority disposes of the issue by stating unequivocally: Such a Bank [a central bank] should not ordinarily require to borrow in the domestic market, either for its own needs or for the purpose of exerting control of the market, as it can increase its cash assets and diminish the supply of funds in the market by selling bills or securities.<sup>36</sup>

Foreign borrowing by the central bank is also condemned, with the observation that the Bank of England's borrowings abroad in 1925 and 1931 represent special cases. The 1931 borrowings in New York and Paris were in fact carried out by the issue department, which is almost a government agency.<sup>37</sup> Many central banks are actually prohibited or severely restricted by their charters in the matter of borrowing.<sup>38</sup> Kisch and Elkin's arguments against borrowing in the domestic market are based on the principle that other control mechanisms are adequate, and against borrowing abroad on the principle that this is properly a government function. With the latter point, there can be no quarrel. With the former, however, there is ground for dispute. A final evaluation of this point must be postponed until the position of the federal reserve banks has been considered.

#### *The Federal Reserve Banks*

The question may now be raised as to whether or not the federal reserve

<sup>34</sup> *Minutes of Evidence Taken before the Committee on Finance and Industry* (London, H. M. Stationery Office, 1931), i, pp. 27-28. This bit of evidence came as a result of T. E. Gregory's question whether or not "borrowing on consols" is used currently. Nothing was said regarding true borrowing.

<sup>35</sup> *Ibid.*, p. 34.

<sup>36</sup> C. H. Kisch and W. A. Elkin, *Central Banks* (London, Macmillan, 1932), p. 150.

<sup>37</sup> *Ibid.*, pp. 151-52. For a description of the organization of the issue department, see *Minutes of Evidence Taken before the Committee on Finance and Industry* (London, H. M. Stationery Office, 1931), i, pp. 7-8, 11-16.

<sup>38</sup> C. H. Kisch and W. A. Elkin, *op. cit.*, Appendix i, especially pp. 198, 346, 419.

banks could use borrowing in the money market to advantage. Professor Viner has been the only person to my knowledge to support this position.<sup>39</sup> The fact that the Bank of England has used this technique with considerable success suggests that the possibility ought to be considered. The difference in the institutional organization of the two money markets is not great enough to rule out the consideration.

There is some doubt as to whether the federal reserve banks are at present authorized to conduct these operations. Professor Viner suggested in his 1935 address that perhaps their charters might be so interpreted as to allow them to borrow. Congress alone can give this power to the reserve banks if they do not now possess it.

The repurchase agreements negotiated by the reserve banks with dealers in government securities and acceptances represent the inverse of borrowing in the market.<sup>40</sup> The legality of these transactions has been questioned; but it may be argued that if these are allowable, the converse should be also. The "borrowing on consols" operation of the Bank of England has already been described as having the same effect as a sale under repurchase agreement. If the reserve banks can buy bills and government securities under repurchase agreement on the theory that this comes under the open-market operations authorization, they should also be able to sell bills and government securities under repurchase agreement. This point, however, is a matter for law rather than economics.<sup>41</sup>

The reserve banks have in the past carried out transactions which closely approach this operation. The tax-date operations involved the lending of funds to the Treasury and the borrowing of the reserve banks from the member banks. Actually these operations took the form of a sale of a one-day certificate by the Treasury to the reserve banks and the granting of a participation in this sale to member banks.<sup>42</sup> As Burgess notes, such transactions between the reserve banks and the Treasury are prohibited by the

<sup>39</sup> *Am. Econ. Rev. Suppl.*, xxvi (1936), p. 118. Professor Viner's extensive studies of England's experience explain his keen insight at this point. Fortunately he has made available much of this material in his recently published book, to which reference has already been made.

<sup>40</sup> For a discussion of federal reserve policy on repurchase agreements, see S. E. Harris, *Twenty Years of Federal Reserve Policy* (Cambridge, Harvard University Press, 1933), i, pp. 289-90. See also W. R. Burgess, *The Reserve Banks and the Money Market* (New York, Harper, 1936), p. 122, pp. 234-35, p. 318.

<sup>41</sup> For information on amount of securities and acceptances bought under repurchase agreement see *Hearings before a Subcommittee of the Banking and Currency Committee of the United States Senate Pursuant to S. Res. 71, 71st Congress, 3rd Session* part vi, pp. 794-947, especially pp. 819, 847, 947. This source is cited hereafter as *Hearings S. Res. 71*.

<sup>42</sup> By these transactions the Treasury was enabled to meet maturities slightly in advance of the collection of taxes, and at the same time the reserves of member banks were prevented from rising as a result of the disbursement of the funds borrowed by the Treasury from the reserve banks. For further details see: C. O. Hardy, *Credit Policies of the Federal Reserve System* (Washington, Brookings Institution, 1932), pp. 68-69; D. T. Smith, *Deficits and Depressions* (New York, Wiley, 1936), pp. 50-51; W. R. Burgess, *op. cit.*, pp. 115-18, 191.

Banking act of 1935.<sup>43</sup> Broadly considered, the tax-date operations involved borrowing in the market by the reserve banks. Hence one may say that borrowing in the money market is not entirely unknown in the United States. The use made of this device is, however, severely limited.

With regard to the use that might be made of borrowing in the market, all that one can do is to consider the various possibilities. Assuming that the reserve authorities wish to tighten money market conditions, they may proceed in a variety of ways. They may sell earning assets, *i.e.*, government securities or bills, raise discount rates, increase legal reserve ratios, apply rationing, and employ moral suasion. Borrowing in the money market could not displace entirely these techniques. At most, the reserve banks could borrow for short periods, thus meeting only one type of situation—namely, the short-term plethora of funds.<sup>44</sup>

So long as the reserve banks hold substantial portfolios of short dated assets, they can ordinarily meet the situation by allowing maturing assets to run off and not replacing them. They cannot do so with acceptances, for the market has never developed to the point where the reserve banks can withdraw their support entirely.<sup>45</sup> They may not wish to reduce their government security holdings because of a desire to avoid depressing the market. Actually this seems to have been a factor in 1936 and 1937 in leading the reserve authorities to raise reserve requirements rather than to sell government securities to cope with excess reserves.<sup>46</sup> In short, the fact that the reserve banks have assets which they may sell is no assurance that they will sell. Conceivably under these circumstances, borrowing in the market might be used to absorb temporary excess funds.<sup>47</sup>

Another possible case for the use of this technique might be under circumstances where the reserve banks had no assets to sell.<sup>48</sup> One can conceive

<sup>43</sup> *Ibid.*, p. 117n, 319. The relevant portion of the Federal Reserve act, as amended is section 14(b), par. 3, which permits the reserve banks to deal in government obligations only in the open market. Burgess suggests, however, that the way is still open for tax-date adjustments. Nothing would prevent the Treasury's selling one-day certificates directly to member banks through the reserve banks as agents.

<sup>44</sup> Long-term adjustments by means of borrowing may be ruled out of the discussion.

<sup>45</sup> For a discussion of the acceptance policy of the reserve system, see C. O. Hardy, *op. cit.*, pp. 243-63; S. E. Harris, *op. cit.*, i, 317-37.

<sup>46</sup> The federal reserve authorities did not give this reason in their official statement. Obviously they cannot go on record as being motivated by the necessities of government financing. Had considerations of the security market not been a factor, they might have decreased excess reserves by raising reserve requirements somewhat and by selling some government securities.

<sup>47</sup> R. G. Hawtrey also suggests that borrowing may serve to absorb surplus funds at a time when an outright sale of assets might result in a capital loss. *Op. cit.*, p. 151. Cf. J. Viner, *op. cit.*, p. 118.

<sup>48</sup> J. M. Keynes seems to argue that the central bank must have previously acquired assets. *Op. cit.*, ii, pp. 258-59.

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of a situation in which the portfolio might be too small to allow the volume of funds in the market to be absorbed by sales in the open market. Until 1928 the reserve banks never held more than one billion dollars of open-market assets; and only in recent years has the portfolio been continuously above that figure.<sup>49</sup> Prior to our entry into the World War, the government debt was too small to permit open-market operations in government securities in any volume. Acceptances have not been able to serve, because of the policy of the federal reserve system with regard to this type of paper. Possibly there is no reason to expect that the reserve banks will again find themselves with a small portfolio of open-market assets in view of their present large holding of government securities. The variable reserve ratio can serve to absorb large amounts of excess reserves as has been demonstrated, and gold imports can be sterilized by the Treasury. Nevertheless, this consideration does not bar a discussion of the potential usefulness of this device.<sup>50</sup>

Precisely how might borrowing in the market be carried on? From whom might funds be obtained? These questions must be answered, and the operations of the Bank of England suggest in part the answers. It borrowed from: (1) its own stockholders; (2) bill brokers and finance houses; (3) banks; and (4) holders of balances which were normally loaned in the market. The first and third sources are not distinct in the United States if one assumes that non-member banks may be disregarded. The second source is not large, for the bill market in the United States is not extensive. As to borrowing from banks, the existence of a unit system complicates the matter. Borrowing from every member bank would be out of the question, and probably only a few of the large city banks could be contacted. Obviously borrowing is much simpler where the banking system consists of a few large branch banks as in England. However, the same difficulties arise in the use of any instrument of control. If borrowing were directed toward absorbing excess reserves, for example, a large number of banks would have to be dealt with.<sup>51</sup> The extremely large number of banks in the United States would prevent the selective power of borrowing from being used to the maximum. Even so, the reserve authorities could to a considerable extent select the lenders; and selectivity is one of the great advantages of borrowing over open-market selling.

Holders of balances, which are loaned in the market, fall into two natural groups, domestic and foreign. Information concerning the magnitude

<sup>49</sup> *Annual Reports of the Federal Reserve Board*. The data are not available in a single table. Location of back figures is indicated in *Annual Report of the Board of Governors for 1935*, p. 63.

<sup>50</sup> Assuming eventual retirement of the government debt and no further development of the use of acceptances, the conditions of the pre-war era may again prevail.

<sup>51</sup> In discussing the use of the variable reserve ratio, Watkins raises the question of the direction of the control device. *Op. cit.*, pp. 359-64.

of these balances and their utilization is very incomplete.<sup>52</sup> Although the situation in the United States is not exactly the same as in England, it is analogous. Conceivably, the reserve banks could obtain control of balances of domestic and foreign institutions just as did the Bank of England. Before effective use could be made of this technique a statistical reporting service would have to be set up to supply current information as to the amount and utilization of balances.<sup>53</sup>

Still another source of funds is the balances of the Treasury with the depository banks, other than the federal reserve banks. These balances are not constant in amount but are frequently very large.<sup>54</sup> If the reserve banks could borrow these, the money market could be tightened promptly. As the matter now stands, the Treasury decides how its balance shall be distributed between reserve banks and depository banks. By giving the reserve banks a means of controlling the distribution, a powerful weapon would be placed in the hands of the central banking authority. Close coöperation between the Treasury and the central bank may accomplish the desired end. Indeed, in view of the extensive central banking powers of the Treasury, as a bank of issue, as a holder of large balances, and as an operator of a stabilization fund, the Treasury must work in close harmony with the central bank. Nonetheless, it would seem desirable that the central banking authorities be given as great a degree of autonomy as possible.<sup>55</sup>

Finally, the point should be made that borrowing in the market by the reserve banks should be placed under the control of the open-market committee. Like other control devices, administration could be effective only if complete power were vested in a central responsible body.

The mechanics of borrowing, were this to be used, would present a problem. Perhaps the borrowing might take the form of having the reserve banks give their own promissory notes (secured or unsecured) to the lender.

<sup>52</sup> Studies made of loans to brokers throw some light on this topic. S. E. Harris, *op. cit.*, ii, pp. 454-58. *Hearings, S. Res. 71*, pp. 1020-29. As to foreign balances and their use, see *Statistics of Capital Movements* (Washington, U. S. Treasury Dept., 1936-37). Federal reserve banks have placed funds in bills for foreign banks, and the amounts are reported in the *Federal Reserve Bulletin* and the *Annual Reports of the Federal Reserve Board*. This type of funds is of course already under control. It is funds placed through agencies other than the central bank which must be considered. Some measure of the volume of these funds can be obtained by adding together outstanding acceptances, commercial paper, Treasury bills, and brokers loans. More precise information would have to be based on an analysis of the holders of balances.

<sup>53</sup> The growth of social insurance schemes will add a new element to the picture. Social insurance funds will probably become large investors in the money market.

<sup>54</sup> On June 30, 1936, the Treasury held balances totalling \$1,899,259,466.63, of which \$690,103,434.19 were in reserve banks and the remainder in other banks. *Annual Report of the Secretary of the Treasury for 1936*, p. 211.

<sup>55</sup> The alternative is to have the central bank offset the results of Treasury operations upon the money market. This line of action is appropriate only when Treasury operations are of a purely fiscal character.

Perhaps securities or bills might be sold under a repurchase agreement. In any case, an interest payment would be involved; and, although there is no statutory prohibition on the payment of interest by the reserve banks, they have not paid interest upon deposits. The way would appear to be open for payment of interest upon borrowing or payment of interest to special depositors, or in other words for adopting the technique of the bank of England. However, Congress might have to make specific authorization of interest payment.

Although in general there can be no quarrel with the principle that the central bank should not pay interest on balances, the possibility of doing so in special circumstances is desirable. Interest payments would be necessary to attract the funds from alternate uses. This does not apply to Treasury balances, but it does apply to balances of banks and non-banking lenders. Since the payment of interest might be required at a time when the earning assets were low, perhaps some provision ought to be made for the government's bearing this cost. If this were done, there would be less chance of the central bank's endeavoring to obtain the necessary earnings by acquiring assets currently or subsequently and thus perhaps defeating the fundamental purpose.<sup>56</sup>

### Summary

Borrowing in the money market by the federal reserve banks might well serve a useful purpose. In elaborating the suggestion made by Professor Viner, the possibilities in this technique of control have been canvassed. There seems to be no good reason for accepting Kisch and Elkin's categorical denial of the usefulness of this device. Probably our purposes for the present would be served by placing the federal reserve banks in the same position as the Bank of England—namely, of having a potentially powerful instrument of control in reserve.<sup>57</sup>

At some time in the future, especially since member bank reserves are now excessive, the necessity of absorbing surplus balances may become a genuine problem. By having at hand a selective device, which can be directed toward that area of the money market where funds are excessive, the authorities will be well prepared. The device is more selective than sales of securities in the open market, for open-market sales are notably non-directional. In borrowing, the reserve banks could negotiate directly with those agencies which held surplus funds and thus be assured of removing excess funds at the source.

In retrospect, the suggestion may be made that borrowing in the money market in 1928 and 1929 might have served to absorb some of the funds

<sup>56</sup> Cf. R. S. Sayers, *op. cit.*, p. 128, where the question of the Bank of England's bearing the interest cost is discussed.

<sup>57</sup> Cf. R. G. Hawtrey, *op. cit.*, p. 152.

placed in the call market by non-banking lenders. Whether or not that would have been desirable need not be considered here. Suffice it to say that the reserve authorities felt themselves handicapped in that they could not control these funds.<sup>58</sup>

The use to be made of this technique in the future, assuming that it were adopted, is purely a matter of conjecture. If the variable reserve ratio is to be used only infrequently, and if open-market purchases and sales are to be used for adjusting the reserve position of member banks in the short run, then borrowing in the market may be used as a very short-run mechanism. Borrowing for long periods would probably not be necessary for other means are available to meet the needs in that sector of the field of control.<sup>59</sup>

Finally, would there be a handicap in the fact that the operation of the reserve banks would not be secret?<sup>60</sup> Actually only the leaders would know of the transactions in advance of their being made known to the general public through the weekly press release. This does not appear to be an important point, for the federal reserve banks are less anxious to have their operations cloaked in secrecy than is the Bank of England.

The final conclusion is that borrowing in the market by the federal reserve authorities might prove to be a useful device for absorbing temporarily a superfluity of funds. Borrowing would not displace other control mechanisms but would allow the monetary authorities to operate selectively against surplus balances. Even if no immediate use were found for this technique, it would be well for the necessary preparations to be made. A few trials of the device would serve to familiarize the money market with this type of operation and also to build up the desirable tradition for the use of this technique. With the necessary groundwork laid, the federal reserve authorities would have at their disposal a potentially powerful weapon of control.

EDWARD C. SIMMONS

*University of Michigan*

<sup>58</sup> *Hearings, S. Res. 71*, pp. 1023-27; S. E. Harris, *op. cit.*, ii, pp. 488-92; C. O. Hardy, *op. cit.*, pp. 148-53. The passage of legislation in 1933-34 restricting brokers' borrowings has eliminated the possibility of the development of another situation like that of 1928-29. The most important legislation is section 8 of the Securities Exchange act of 1934 which vests in the federal reserve authorities the power to control brokers' loans.

<sup>59</sup> Calling upon the member banks for payment in full of stock subscriptions to federal reserve banks is one device not often considered. Another would be for the reserve banks to issue and sell their own debentures. These devices are of course alternative to further increase of reserve ratios. Still another possibility is for the Treasury to build up balances at the reserve banks by tax collections or by sales of securities.

<sup>60</sup> Cf. R. G. Hawtrey, *op. cit.*, p. 152. Hawtrey argues that "borrowing on consols" was less easily discerned than direct borrowing in the market.

## THE LIQUIDITY-PREFERENCE THEORY OF INTEREST

This paper is an expansion of some remarks delivered before a Round Table on General Interest Theory at the Fiftieth Annual Meeting of the American Economic Association in Atlantic City, December 29, 1937.

Mr. Keynes's liquidity-preference theory of interest is that the interest rate is determined by liquidity preference and the quantity of money. A number of different interpretations of the term "liquidity preference" are possible. These alternative definitions are divided into two groups: (1) substantial definitions concerned with common-sense notions of liquidity; (2) formal definitions concerned with the total demand for money. No formal definition is equivalent to any substantial definition except under very artificial assumptions. Under more general conditions, the substantial definitions render the theory wrong and the formal definitions render it less useful than alternative correct theories, as tested by simple criteria of usefulness set up for the purpose. It is the ambiguity in the definition of liquidity preference which gives it the appearance to some of being at one and the same time useful, formally valid, and of very general application. It may with suitably chosen definitions be any two of these but never all three.

Mr. Keynes has recently advanced what purports to be a new theory of the rate of interest, the liquidity-preference" theory.<sup>1</sup> The rather voluminous criticism called forth by the appearance of this theory has been seriously hampered by the difficulty of deducing from apparently conflicting statements exactly what the theory is supposed to say. I propose in what follows to subject the various alternative interpretations to a more or less systematic analysis in the effort to determine which of them if any are formally correct theories, which fruitful, and whether the two categories correspond. The specific criticisms here advanced are derived almost entirely from the work of others, to whom I am deeply indebted. Detailed acknowledgment at every point where it is due would submerge the structure of the paper in a swamp of footnotes; but the reader will detect at once the pervasive influence of Mr. Robertson, Professor Ohlin, Professor Viner, Mr. Hicks, Professor Angell, Professor Hansen, and many others.<sup>2</sup>

### I

The liquidity-preference doctrine is that the rate of interest (hereafter simply *i*) is determined (subject to certain conditions) by two variables: liquidity preference and the supply of money. The meaning of the doctrine is dependent upon the meaning of the term liquidity preference. More than five separate and inconsistent meanings have been found explicitly or im-

<sup>1</sup> Cf. *The General Theory of Employment, Interest, and Money*, Macmillan, 1936; "The General Theory of Employment," *Quart. Jour. of Econ.*, Feb., 1937; "Alternative Theories of the Rate of Interest," *Econ. Jour.*, Dec., 1937; *The Theory of the Rate of Interest in Lessons of Monetary Experience*, edited by A. D. Gayer, Farrar and Rinehart, 1937.

<sup>2</sup> Cf. especially D. H. Robertson, *Quart. Jour. of Econ.*, Nov., 1936, p. 168 ff., and *Econ. Jour.*, Sept., 1937; J. R. Hicks, *Econ. Jour.*, June, 1936, p. 238 ff., and *Econometrica*, April, 1937, p. 147 ff.; Bertil Ohlin, *Econ. Jour.*, June, 1937, p. 221 ff., and Sept., 1937, p. 423 ff.

My most extensive pilferings are from unpublished comments of Mr. R. M. Bissell, Jr., of Yale University, who has suggested much of what is here said, though it would be uncharitable to hold him answerable for my restatement of his ideas.

PLICITLY in the works of the doctrine's chief advocate, Mr. Keynes. Clarity demands that we first distinguish between them.<sup>3</sup> They fall into two groups: (1) Meanings defined formally by reference to some relation not directly dependent on the common-sense notion of liquidity. Call these *formal* meanings. (2) Meanings relating to the preference of an individual (or community) for holding his assets in a particular form, that is, meanings derived primarily from the ordinary banking notion of liquidity. Call this group *substantial* meanings.

The important distinctions in each group are:

#### 1. *Formal Meanings*

- a. The liquidity-preference curve is a curve connecting the total demand for money (for whatsoever purpose) to various rates of interest. It is drawn up, like any demand curve, relevant to a particular set of circumstances and is instantaneous in the sense that it represents those demands for money which would immediately arise in the given situation (of income, expectations, etc.) if the rate of interest were placed at any given figure, all other factors remaining unchanged. It can be drawn for any situation, equilibrium or disequilibrium. Changes in income and other factors shift the whole curve back and forth. Call this the instantaneous total demand curve for money.
- b. The demand for money is split into two demands, one assumed to be a function of the level of income only, the other a function of  $i$  only. The function of  $i$  alone is defined as the liquidity-preference schedule. This too is defined instantaneously to show the immediate change in demand consequent upon a change in  $i$  alone. Call this the instantaneous *partial* demand curve for money.<sup>4</sup>
- c. Again the curve is defined as a *total* demand curve, but it represents a series of equilibrium positions rather than a series of instantaneous alternatives. It assumes that each value of  $i$  corresponds to a particular equilibrium level of income. The curve then shows the amount of money corresponding to each  $i$  as that amount which will in fact be demanded (for all purposes) at the equilibrium level of income which that  $i$  determines. Changes in income in this case are represented by movements along the curve rather than by shifts in the curve itself. Call this the equilibrium total demand curve for money.
- d. Again, this curve may be split into two curves, as in (b). This time the second half represents not those changes in demand instantaneously consequent upon a change in  $i$  but rather those differences in demand between two equilibrium situations not determined by the differences in income in the two situations. Call this the equilibrium *partial* demand curve for money.

#### 2. *Substantial Meanings*

- a. In Mr. Keynes's writings liquidity preference is said to be essentially the

<sup>3</sup> Mr. Keynes almost certainly would select one or more of these definitions as the one he meant to use, denying that the others are to be found in his writings. Since it is not clear to me which ones he would reject, however, it is safer to discuss them all. Each meaning has been imputed to Mr. Keynes by one or more students of his work.

<sup>4</sup> It is this device which is represented by Mr. Robertson's diagram, *Q.J.E.*, Nov., 1936, p. 181.

same thing as the propensity to hoard. This seems to require two different interpretations in different contexts:

- (1) The amounts of money that people will try to hold in *idle* balances (at a given moment) at various rates of interest. This we may call the demand for idle balances (in terms of  $i$ ).<sup>5</sup>
- (2) The *proportion* (or percentage) of their total assets (including idle balances but not including active balances) which people will try to hold in the form of idle balances at various rates of interest. Call this the propensity to hoard. Professor Angell adopts a concept similar to this, but varying with factors other than  $i$ .

In several places Mr. Keynes divides what is commonly conceived to be the demand for idle balances into two parts, one demand resulting from the "precautionary" motive, one from the "speculative" motive. It is the latter only which he makes responsive to  $i$ .

- b. Finally appears the terminologically reasonable concept of liquidity preference as the preference of an individual for a certain average degree of liquidity in the assets he holds. Call this liquidity preference proper, further roughly definable as follows: Any given type of asset possesses a certain liquidity dependent upon (1) the length of time required for realizing in cash the full value of the asset (period of maturation in the case of a dated loan), (2) probable amounts obtainable from quicker forced liquidation of the asset, (3) risk of loss of part or all of the principal (default on a loan, burning down of a house, or other damage to the asset itself). A rough liquidity index can be constructed reflecting these factors for any given type of asset. An index of the average liquidity of the assets of the individual can then be calculated by weighting the liquidity of each type of asset by the value of the amount of the asset held.<sup>6</sup> For an individual there is, in a given set of circumstances (given interest rate, income, state of expectations, etc.) a given average liquidity which is preferred to others. This is liquidity preference proper. It can be plotted against  $i$  (*ceteris paribus*). Note that increased average liquidity for the individual can be obtained in three ways at least: (1) by moving into cash, (2) by moving from long-term into short-term assets, (3) by moving from high to low-risk assets.

## II

Certain preliminary remarks should be made about these definitions and their relations to one another. In particular, the curves formally defined are drawn up subject to certain assumptions which must be kept constantly in mind when those curves are used. Mr. Keynes first defines liquidity preference simply as the total demand for money as a function of  $i$ . Thus we have:

$$(1) \quad L \equiv L(i)$$

This is subject to no limiting assumptions except the one common to all

<sup>5</sup> Mr. Keynes does not himself use the term "idle balances." It is here used in the sense of "balances held for other than transactions purposes." For a more statistically precise definition, see Professor Angell, *J.P.E.*, June, 1937, p. 292n. The common-sense meaning is really all that is required here.

<sup>6</sup> I have toyed with the construction of such an index, and believe the problem is soluble, at least in a rough sort of way. This is not the place to present the details, but I hope to be able to do so in a later paper.

two-dimensional demand curves—namely, that all factors influencing the demand other than  $i$  are reflected in the form (and constants) of the function  $L$ . Shifts in any of these factors change the form of the function. This is the instantaneous total demand curve for money.

A more complicated function is then introduced to take care of the effect of income  $Y$ :

$$(2) \quad L(i, Y) \equiv L_1(Y) + L_2(i)$$

This involves the assumption that one portion of the demand is completely independent of  $i$  and the remaining portion independent of  $Y$ . In places Mr. Keynes seems to identify  $L_2$ , or what I have called the partial demand for money, with liquidity preference. It is then clear that if the theory that  $i$  is determined by liquidity preference in this sense and the quantity of money is to have any pretense to validity, we must always add to the statement of the theory that the value of  $Y$  and the form of  $L_1$  are given. The influence of  $Y$  is, in this case, *not* reflected in the form of the "liquidity-preference" function,  $L_2$ , and hence it is not enough simply to say that  $Y$  is constant.

Either of these functions could be defined so as to be instantaneously relevant. That is, having been drawn up for any situation, they would show what would happen immediately to the demand for money if  $i$  alone were changed. No equilibrium conditions of any sort are imposed on these curves. But for that very reason they do not suit Mr. Keynes's purposes. A change in  $i$  will ultimately induce a number of other changes principally in income. These curves, drawn on the very short-period assumption that income is independent of  $i$ , are not useful in the comparison of the equilibrium situations with which Mr. Keynes is primarily concerned. For one of the corner stones of the general theory is that in equilibrium (with given propensity to consume and fixed schedules of the marginal efficiency of capital) there is a unique correlation between the level of income,  $Y$ , and the rate of interest,  $i$ . Thus we have:

$$(3) \quad Y \underset{e}{=} Y(i)$$

where the symbol  $\underset{e}{=}$  means "equals in equilibrium."<sup>7</sup> Now by substituting for  $Y$  in expression (2), we come out with:

$$(4) \quad L \underset{e}{=} L_1(i) + L_2(i) = L(i)$$

This appears offhand to be the same as (1), but the addition of the  $e$  over

<sup>7</sup> A large part of the confusion of Mr. Keynes's work arises from his failure to distinguish clearly between mathematical identities and equilibrium equations. Thus the equivalence of investment and saving is an identity, but the equivalence of the marginal efficiency of capital and the rate of interest is in a sense an equilibrium condition. Exactly what sort of equilibrium is involved needs to be further specified, but whatever it may turn out to be, the relation is clearly not one of identity. I shall employ the symbol  $\underset{e}{=}$  for equilibrium equations.

the equals sign represents a red flag with the following assumptions inscribed upon it:

1. The total demand for money consists of two demands, one a unique function of  $Y$ , the other a unique function of  $i$ .
2.  $Y$  is a unique function of  $i$  in equilibrium situations.
3. (A corollary of the above) Equation (4) holds only for equilibrium situations, that is, it shows not what will happen immediately to the demand for money if  $i$  is changed, but what the demand will be if, as, and when a new equilibrium at a new  $i$  is reached.

Another way of putting assumptions (2) and (3) is that the rate of interest inserted in the function,  $L$ , is assumed to have worked out its full effect upon income. As I shall show later, the assumption of equilibrium here made involves the assumption that income is stable and expected to remain indefinitely at the existing level. Thus this "liquidity-preference" curve (the third of the formal curves defined above) is the locus of total demands for money in a series of stable income situations corresponding to a series of interest rates.

Turning, finally, to the last of the formal definitions, it should be noted that  $L_2$  in the expression:

$$(5) \quad L = L_1(Y) + L_2(i)$$

is a very different thing from  $L_2$  in expression (2). The instantaneous  $L_2$  shows what will happen to all demands for money when  $i$  is changed and before income is affected. The  $L_2$  in (4) and (5) above is subject to all the equilibrium assumptions. Each level of income is assumed to be associated with a given determinate demand for money. Any demands for money over and above those associated with the level of income must then be represented in  $L_2$ , the *equilibrium* partial demand curve.

### III

Nothing has been said as yet concerning the relation between the formal and the substantial meanings. Mr. Keynes appears to use the term liquidity preference in all of the above different ways in different places in his work, often, it is true, only by implication. The liquidity-preference theory of interest is presented, however, not as five or six theories but as a simple unified theory. This would, of course, be justified only if the various definitions were all equivalent. The argument from this point on may be summarized as follows: Only under very strict limiting assumptions can any of the formal meanings be made equivalent to any of the substantial meanings. The assumptions are such as to destroy completely the generality of the theory. If, then, we wish to interpret the theory in such a way as to render it applicable to more than one very rare type of situation, we may choose as relevant *either* one of the substantial meanings *or* one of the formal meanings, but not both

at once. It will then be argued that when any of the substantial meanings are used, the theory, though suggestive, is formally incorrect. When any of the formal meanings are used the theory, though perhaps formally correct, is neither a useful nor a fruitful tool of analysis. Mr. Keynes has been able by jumping about unannounced from one definition to another to give the impression that the theory is at once general, fruitful, and formally valid. When the discussion centers upon fruitfulness, he concentrates on a substantial meaning; when formal validity is at stake, he uses a formal definition; and by conveniently forgetting his limiting assumptions he conveys the impression that the two are in general equivalent.

Let us consider first the equivalence of the formal and the substantial meanings. Clearly the only equivalence that could be in any way alleged is between the partial demand curve for money (the  $L_2$  function) and the demand for idle balances. In fact, Mr. Keynes is careful to point out that only that portion of the demand for idle balances which is dependent on the "speculative motive" is to be identified with  $L_2$ . The assertion of identity is equivalent to the following assertion: The demand for idle balances for speculative purposes is the only factor influencing the total demand for money other than through changes in the level of income. This assertion unqualified by important restricting assumptions is clearly untrue. An increase in the marginal efficiency of capital due to an increase in physical productivity or due to an increase in expectations of future income will lead to a sharp rise in the demand for money for transactions purposes before any increase in income has taken place.<sup>8</sup> Similarly, if there is an expectation of an increase in income, the demand for money for precautionary purposes will probably fall off considerably before the change in income occurs. Thus if  $L_2$  is defined instantaneously, it is clearly not equivalent to any of the substantial definitions.

If we take the *equilibrium* partial demand curve, with the assumptions appropriate to it, the identity becomes much more reasonable. For if we assume that for each value of  $i$ ,  $Y$  has reached its equilibrium value, and is expected to remain stable at that value, the complications of the dynamic process are in part at least avoided. Comparing two such stable situations we may say that differences in the marginal efficiency of capital or in the propensity to consume affect the demand for money through the differences in the levels of income they determine rather than through a direct effect on  $i$ . Conversely, it may be said that though a fall in  $i$  may lead immediately to an

<sup>8</sup> Mr. Keynes, although overlooking this factor in his book (as he admits), has recognized it in a recent article as what he calls "funds for finance" (*Econ. Jour.*, Dec., 1937). He appears, however, to minimize both its practical importance and its significance for his theory. Surely if the rate of investment *ex ante* is changing at all rapidly, the accompanying changes in the demand for liquid funds may have a decisive effect on  $i$ . But if this is the case,  $i$  is affected importantly by factors other than  $L_0$ ,  $L_1$ , and  $Y$ . This emphasizes the fact that the "long-period" curve is relevant only in the special case in which income and the rate of investment are stable and expected to remain so.

increase in the demand for funds for transactions purposes, when the new equilibrium has been established, income will be greater. The increased transactions demand may then in equilibrium be said to be associated with the higher level of income, and may thus be represented in  $L_1$  rather than in  $L_2$ . This can be done, of course, only if the transactions demand is assumed to be uniquely correlated with the level of income in equilibrium. This is a weakness since the same equilibrium level of income, achieved in different ways, may require the holding of different amounts of money for transactions purposes.

Thus, when the equivalence of  $L_2$  with some portion of the demand for idle balances is alleged, it must be borne clearly in mind that this equivalence holds only in equilibrium situations of stable income and subject to the assumption that each level of income requires the holding of a unique amount of money for transactions purposes.

A theory of interest limited to this very rare type of situation is surely not a very useful device. For interest theory is of use to economists chiefly in the analysis of *fluctuations* in investment as during the trade cycle. Mr. Keynes seems to imply that his theory of interest will be of some use in this type of problem. We must then turn to an examination of the fruitfulness and validity of the "substantial" theories and the "formal" theories in more common situations where they are no longer equivalent.

#### IV

In what follows, it will be said that the liquidity-preference theory of interest is formally incorrect if there are factors affecting the rate of interest which do not affect either liquidity preference or the quantity of money. The theory is formally correct if all factors affecting  $i$  act through one of these two. I am sure that Mr. Keynes, if challenged, would deny that he meant to imply that the rate of interest is determined even proximately solely by the reaction of the demand for idle balances, or the propensity to hoard, or liquidity preference proper and the supply of money. Yet certain passages in his book suggest this, and the theory has been so interpreted by some of his readers. It is worth pointing out, therefore, that when one of the substantial meanings of the term liquidity preference is used, the theory is formally incorrect in serious respects in that there are important factors affecting  $i$  which have no necessary connection with liquidity preference as substantially defined.

The first such factor is the physical productivity of capital. Clearly an invention which raises the marginal productivity of capital will give rise to a demand for funds for the purposes of investment. If this demand does not call forth an equivalent increase in the quantity of money, and there is no necessary reason why it should, it will operate to raise the market rate of interest. Yet it need not have any effect on either the demand schedule for idle balances, or the propensity to hoard, or liquidity preference proper.

Here, then, is a factor which affects the interest rate without affecting either the quantity of money or liquidity preference substantially defined. Hence the theory, when based on such a definition, is formally incorrect. A second such factor is an increase in the level of incomes. This need not affect any of the above three substantially defined quantities. Yet if the banking system does not increase the supply of money, an increase in income will increase the demand for active balances and thus raise  $i$ . Similarly, an increase in the marginal efficiency of capital due to expectations of increased future income may lead to an increased demand for funds without affecting liquidity preference as substantially defined. Thus the theory is in general formally incorrect if "liquidity preference" means the demand for idle balances or something like it.

It will be superfluous to prove that formally correct theories of  $i$  can be constructed on the basis of the remaining definitions of liquidity preference—namely, the formal definitions, if we can prove that such theories, if so constructed, would not be as useful or convenient tools for the analysis of  $i$  as others already at hand. To do this we need to establish criteria for the usefulness and fruitfulness of a theory of interest.

In economic theory it is customary as a first approximation to describe prices and quantities as determined by the intersection of two two-dimensional curves, such as a supply curve and a demand curve. The liquidity-preference theory of interest is such a two-dimensional graphic device. The use of such curves does not imply that the explicit variables, demand and supply, are wholly independent of all other variables in the system except the price in question. It has long been recognized that in the theory of any particular price, as in the theory of interest, more than two variables are involved. Indeed, since the time of Walras and before, it has been realized that all the variables in the economic system are related to some extent. In any given problem, however, it is convenient to define two variables, demand and supply, for explicit representation in curves. The effect of the remaining variables is then expressed implicitly in the shape and position of the curves.

Thus the effect of a given price of pork on the quantity of beef sold at various prices is expressed in the shape and position of the demand curve for beef. If the price of pork changes, the demand curve for beef (and probably the supply curve) will shift in some fashion. Similarly, the curves will shift as a result of changes in other prices, changes in income, and so on. Now it would clearly be possible to define demand and supply curves in terms of various different variables. We could hold the quantity of beef constant and express its demand price as a function of the price of pork, or, holding this constant, as a function of income or any other variable. The problem then arises: In defining demand and supply curves, which of the many variables affecting quantity  $x$  shall we pick out for explicit representation? What criteria are to govern our choice?

In ordinary partial equilibrium price analysis it was classically assumed that the effect of two particular variables (usually the price and quantity of the good in question) would be much larger than that of any others in the short period. It was felt that all but the two explicitly represented quantities could be assumed to be roughly constant for most purposes. Thus the criterion of fruitfulness of any particular set of curves was the relative constancy of the position of the curves with respect to all the variables not taken account of in the graph. In other words, the curves should be so drawn that for most purposes the other variables in the system (such as other prices, the level of incomes, etc.) could be forgotten altogether.

Now there has been a growing conviction in interest theory that no such constant curves could be defined determining the rate of interest. There are too many highly variable factors affecting  $i$  significantly. Changes in the marginal productivity of capital, changes in expectations, changes in the demand for idle balances, changes in the propensity to consume, changes in the supply of money, and many other factors, all subject to considerable variation, may each be of great importance at one time or another in the determination of  $i$ . This does not mean that two-dimensional analysis in terms of the intersection of curves is no longer useful as a start on the problem, but it does mean that no useful results can be obtained until the effects of other variables on the positions of the two curves are very carefully studied. Whatever variables we select to establish our curves, we must clearly realize that movements of the curves themselves will probably be more significant than movements along the curves. No two-dimensional analysis of  $i$  whatsoever, be it in terms of supply and demand for saving and investment, supply and demand for money, supply and demand for idle balances, supply and demand for claims, or anything else, can avoid this difficulty. There are simply too many relevant variables.

This circumstance of necessity changes the criterion of fruitfulness of any particular two-dimensional analysis. The classical criterion of relative constancy of the curves chosen must be abandoned in interest theory simply because no two curves can be found which will in the real world be anything like constant. If we choose, then, to continue to initiate our analysis of  $i$  by representing graphically a preliminary relationship between two of the relevant variables, what are to be the criteria of fruitfulness governing our choice of this relationship? I suggest that the following are important considerations:

1. *The Criterion of Evident Dependence.* The curves must be of such a nature as to make us *remember* rather than *forget*, as formerly, the relevant excluded variables. They should be drawn up in such a way as to call attention to the fact that they are incomplete, that they tell us little by themselves; and the relation of other variables to them should be so clear that they are really helpful in analyzing the effect of these variables on  $i$ .

2. *The Criterion of Unambiguous Definition.* They should be capable of definition as accurate and unambiguous as possible. Since the effect of many other variables on these functions must be carefully studied, it is of the utmost importance not only that the definition be as precise as possible but also that it be sufficiently simple so that careless misinterpretation is unlikely.

3. *The Criterion of Relevance to Dynamic Conditions.* In interest theory especially, if the theory is to be of any use in analyzing the reactions on investment and on the trade cycle, it must be capable of extension to dynamic conditions, that is, conditions in which the level of income and the state of expectations in particular are moving rapidly in one direction or the other. This means that the curves taken as the proximate determinants of  $i$  must not be so defined as to have meaning only in an equilibrium situation with constant incomes expected to remain at their present levels. They must be instantaneously relevant in *any* situation. They may be extremely unstable through time in a transition state (indeed, I see no way in which this can be avoided); but they must be at least *definable* at any given moment.

4. *The Criterion of Relevance to a Complex of Rates.* Finally, in interest analysis the curves must be applicable to the analysis of a complex of rates as well as to that of a single rate. Indeed, it is doubtful if, outside of elementary courses on the principles of the static state, it is useful to conceive of *the* interest rate as anything other than some kind of weighted index of all the rates actually ruling in the markets for all sorts of assets. Conclusions about *the* rate of interest in so far as they are conclusions relating to the availability of capital can really only be arrived at in practice after an examination and weighting of the relative importance of each particular rate. Theory should be so formulated as to be capable of describing such practical situations.<sup>9</sup>

## V

We turn now to the task of applying these criteria to the theory that  $i$  is determined, at least proximately, by the intersection of a liquidity-preference curve and a curve of the supply of money where liquidity preference is defined in one of the formal ways outlined at the beginning. As Mr. Keynes has set up the theory, it fares badly when confronted with the Criterion of Unambiguous Definition. The great trouble with all the formal definitions is that they are so easily mistaken for one another. It is further to be regretted that they were stated as definitions of "liquidity preference"; for this confuses them immediately with the substantial meanings of the term. This further tends to obscure their dependence on the marginal efficiency of

<sup>9</sup> For further comments on the interest rate as an index of the availability of capital, see R. M. Bissell, Jr., *The Rate of Interest*, a paper read before the meetings of the A. E. A. in Atlantic City, Dec., 1937, and published in the *Am. Econ. Rev.*, Suppl., March, 1938, pp. 23-40.

capital, the propensity to consume, the level of income, etc., since the substantial "liquidity preferences" are relatively independent of other economic variables.

The chief confusion of formal meanings is between the instantaneously defined curves and the equilibrium curves. It is easy to slip from a definition of either partial or total demand for money which is set about with numerous special assumptions to one which is not thus set about. But, as we have shown, when this transition has been made, we have a very different theory whose usefulness is even more dubious, though its generality is much greater. Most of the fruitful analysis of the demand for money in *The General Theory* is carried out subject to the assumptions which define the long-period curve and render  $L_2$  equivalent to the speculative demand for idle balances. But the conclusions are carried over by implication to the generally relevant instantaneous curve. It is not clear whether this is a fault of the theory itself or only of its presentation.

Let us submit the equilibrium theory, based on the last two formal definitions of liquidity preference, to examination, divorcing it strictly from the instantaneous one. It is this equilibrium concept that will, I suspect, ultimately come to be taken as the substance of Mr. Keynes's theory of interest, since it is the only one which seems to fit comfortably into the body of his general theory of employment. Drawn up subject to the strict assumptions outlined above and stripped of the inconsistencies (and much of the suggestiveness) introduced by forgetting those assumptions, the theory can, I think, be made formally perfectly valid. Mr. Hicks has shown us what it looks like when we subject it to this overhaul.<sup>10</sup> One or two remarks are relevant as to what we come out with. In the first place it is no longer the liquidity-preference theory of interest in the narrow sense. The interest rate, the level of income, and the volume of investment are all mutually determined by the functions of liquidity preference, the propensity to consume, and under normal conditions the marginal efficiency of capital. (Mr. Hicks has shown that only under conditions of severe depression is  $i$  inelastic to changes in the marginal efficiency of capital.)

In Mr. Hicks's formulation the dependence of  $i$  on all these factors is clearly brought out and hence the two curves which appear as proximate determinants of  $i$  (the  $IS$  curve and the  $LL$  curve) satisfy at least to a considerable extent the Criterion of Evident Dependence. The same cannot be said for Mr. Keynes's statement with its reiteration of the principle that  $i$  depends on liquidity preference and the quantity of money alone.

<sup>10</sup> J. R. Hicks, "Mr. Keynes and the 'Classics,' A Suggested Interpretation," *Econometrica*, April, 1937, p. 147. A similar formulation comes to my notice as this goes to press. See Oskar Lange, "The Rate of Interest and the Propensity to Consume," *Economica*, Feb., 1938, p. 12. Mr. Lange's statement of the theory is nearly identical with that of Mr. Hicks, though he puts it to a different use. My remarks concerning the one apply in substantially the same form to the other.

In the second place, even in the more generalized form proposed by Mr. Hicks, the theory does no more than relate positions of equilibrium. Given a stable level of income and expectations, the three functions above referred to yield a unique value for  $i$ . Given other levels, they yield other values. But they tell us nothing about the value of  $i$  in transition states where expectations are unstable. Thus even this device (as Mr. Hicks realizes) fails to satisfy the criterion of Relevance to Dynamic Conditions. Its applicability to actual situations may be further restricted if as some critics suggest even the equilibrium which it does define is neutral or unstable rather than stable.<sup>11</sup>

What, then, of the instantaneously defined curves? It will scarcely be contended that the  $L_2$  curve instantaneously defined has any particular significance or usefulness other than to suggest that the equilibrium curve is more generally applicable than it is in fact. But many people have interpreted the instantaneous *total* curve as the one Mr. Keynes meant to use. It is probably formally correct to say that in some sense the rate of interest is determined proximately by the total supply of money and the total demand for money from moment to moment. In this form it is quite clear that the curve is instantaneously Relevant to Dynamic Conditions. It satisfies the other three criteria less successfully. As already suggested, it is subject, as "liquidity preference," to serious confusion with the substantial meanings, and hence its intimate dependence on other economic variables is obscured. Even as "total demand for money," although it is more obviously dependent, the exact nature of its dependence is not immediately clear. If this sort of tool is to be used, it must be set up in such a way that there is no danger of the tool's being mistaken for a finished theory. The liquidity-preference formulation has an aura of finality about it.

Much more serious, however, is the failure of all the formal liquidity preference concepts to satisfy the criterion of Relevance to a Complex of Rates. The rate of interest as an index of the availability of capital for investment depends intimately on the relations among the various short and long-term rates and rates on equities. It is not simply an average of these figures. How can we find out anything about these relative rates with our liquidity-preference tool? And if we do not analyze the relations between the rates in the complex, how can we tell, for instance, what will be the effect on our interest rate index of an increase in the supply of money? The effects of such an increase on investment depend on which rates are affected most. But we are given no tools with which to attack this part of the problem.

Suppose the supply of money is increased through the open-market purchase of government securities by the central bank. What will the effect be? Some of the funds will probably be absorbed in idle balances, part of them will probably find their way into active balances, and some part of them

<sup>11</sup> Cf. D. H. Robertson, *Quart. Jour. of Econ.*, Nov., 1936, p. 168, and A. H. Hansen, *Jour. of Pol. Econ.*, Oct., 1936, p. 680.

(at least in the United States) will probably ultimately return to the central bank again through the repayment of debts by the member banks or the accumulation of excess reserves. Just what the proportionate relations of these various effects will be depends on the subsidiary effects of the initial purchase on the complex of market rates. If the supply of money is increased in different ways, the effects will be different. All the liquidity-preference apparatus tells us is that such additional money as is not returned to the central bank will be absorbed somewhere in the system and that this absorption will be effected by changes in some of the market rates. It tells us nothing about either the process by which this adjustment will take place or the end result. If it gave us a clue as to how to follow through this process and estimate the end result, it would be a useful device, but as thus far formulated, it gives no such clue. To analyze the details, we must forget the total demand for money and survey the demand and supply conditions for claims on each type of claim market. It will then be possible, though of dubious interest, to state what has happened to the total demand for money.

## VI

### *Summary and Conclusion*

Mr. Keynes's liquidity-preference theory of interest has been interpreted as meaning a great many different things, some of them mutually exclusive. This multiplicity of meanings arises largely from the ambiguities apparently present in his own use of the term liquidity preference. It is the presence of these ambiguities which alone gives the theory the appearance of being at once fruitful, formally valid, and of very general application. We have tried to show that only under assumptions seriously limiting the applicability of the theory can any "formal" definition of liquidity preference be identified with any "substantial" definition. When these assumptions are relaxed we must choose between the formal and the substantial uses. When the substantial definitions are inserted, the theory is formally wrong in serious respects. When the formal definitions are used, the theory is of very little use as a tool of analysis on the basis of certain rather obvious criteria.

Criticism of the fruitfulness of a theory should be in terms of an alternative possibility. I think most modern economists would reject as emphatically as does Mr. Keynes the theory that  $i$  is determined solely or proximately by the supply of real savings and the demand for real capital for investment. I think they would agree that a *complete* theory of interest is to be found only in a many-dimensional formula involving a number of variables in addition to those specified in Mr. Hicks's generalized version of *The General Theory*. And I think they would suggest as a useful two-dimensional apparatus of proximate analysis, something like the conventional supply and demand for loanable funds on each of the various claims markets. I should rather use, for terminological reasons, the obverse of the above—namely,

the gross demand and supply for claims of each sort.<sup>12</sup> This apparatus satisfies all the criteria set forth above reasonably well, I think. (1) The demand and supply for claims is obviously a dependent concept, a tool and no more. (2) It is capable of fairly precise definition, and the effect on it of changes in other variables is reasonably obvious. (3) It is clearly instantaneously relevant. (4) It is by definition relevant to any rate complex. It is admittedly not a *theory* of the rate of interest. But as I have tried to show, in so far as Mr. Keynes's liquidity preference is defined so as to be a part of such a theory, it is a theory only of the rarest kind of situation. In so far as liquidity preference is a less pretentious but more generally applicable tool of analysis, it is, I suggest, less useful than the demand and supply for claims. Mr. Keynes has given us in his book a theory which throws a great deal of light on a great many matters, especially the determinants of income. The interest theory, which he has constructed primarily so as to fit into the remainder of the system, is not exceptionally helpful standing on its own feet as interest theory.<sup>13</sup>

MAX MILLIKAN

*Yale University*

<sup>12</sup> If we use the former concept we are likely to think in net terms and thus overlook the factor which is decisive on the long-term market, as Mr. Keynes points out (but *not* on the short-term market, as he fails to point out)—namely, changes in the willingness to hold old claims. If we speak in terms of the gross demand and supply for claims, this omission is less likely.

<sup>13</sup> I have dealt exclusively with the theory as a theory and have not touched on the many illuminating bits of incidental comment and analysis with which Mr. Keynes's works are always delightfully decorated. It has been suggested that one such bit of decoration constitutes Mr. Keynes's most important contribution—namely, the discussion of the way in which liquidity preference proper is related to *i* through the speculative motive. But the importance of this analysis is less than at first appears. As Professor Viner and Mr. Hicks have pointed out, there is little or *no* speculative reason for holding cash in place of time deposits or short-term assets. Hence, a rise in liquidity preferences proper, due to the speculative motive, will result in a drop in the demand for long-term claims and a rise in the demand for short-term on the part of the public. This may not result in any appreciable increase in the demand for idle balances, since the market has many ways of satisfying increased individual liquidity preferences without changing the real liquidity of the community.

## WELFARE ECONOMICS AND INTERNATIONAL TRADE

International trade theory was developed by practical men interested in normative, welfare problems. By making rigorously abstract assumptions, we may consider trade between two individuals instead of between countries. For each individual the technical conditions of production can be expressed in terms of a family of substitution curves. As between individuals three types of movements are distinguished: (1) both individuals get more of every commodity with less of every productive service; (2) each individual moves higher on his preference scale, even though less of particular commodities may be received; (3) one individual moves to a higher position as the other moves to a lower. The first two are clearly beneficial to both parties. About the third nothing can be said in the absence of special and complete welfare judgments. It is demonstrable that free trade (pure competition) leads to an equilibrium in which each country is better off than in the absence of trade, and that no movements of the first or second kinds are possible. Nevertheless, this does not prove that each country is better off than under any other kind of trade; indeed, if all others are free trading, it always pays a single country not to trade freely.

Historically the development of economic theory owes much to the theory of international trade. Precisely because the classical theory of international trade arose in the thought of "practical" men, interested as *citizens* in problems of public policy, the normative and welfare aspects of the subject have received considerable attention. This is clearly seen in the agitation for and against free trade.

Since welfare economics still constitutes a vexing problem in the pure theory of value and distribution, it would perhaps be useful to examine some normative aspects of the conventional theory of international trade in order to determine the extent to which and the senses in which the conclusions reached in that field are valid.

At the outset, it is understood of course that the very discussion of welfare economics implies certain ethical assumptions. I do not propose, however, to discuss the philosophical grounds for holding or rejecting different ethical precepts or assumptions. Rather will the discussion be confined to the implications of different ethical assumptions and the necessary and sufficient presuppositions for the truth of various theorems.<sup>1</sup>

Since the real world presents almost infinite complexity, it is always necessary in matters of this sort to resort to ideally strong cases to bring out the essential theoretical issues. For this purpose I shall consider not trade between national countries as actually existing in the modern world, but rather have recourse to an analogous situation of trade and barter between two or more individuals. This may be regarded as trade between countries with perfect social solidarity and consensus (*e.g.*, totalitarian states); or between units each consisting of identical (representative) individuals; or better still, merely as trade between individuals which illuminates the

<sup>1</sup> To indicate the "objectivity" of our discussion, it may be remarked that the whole argument will be deductive, consisting essentially of *propositional functions* at the same level of thought as a maximum problem in the theory of calculus.

processes of international trade. In this way the problem of weighing and combining different individuals' advantages within each country is avoided. Our license for employing this convention is amply provided by innumerable examples in the classical theory of international trade.

From the consideration of the problem of bilateral monopoly it is hoped that much light will be thrown on the welfare problems of international trade, and that at least one important misconception in the conventional theory will be revealed as such.

# I

Consider first a self-sufficient individual (country) engaging in no outside trade. We take as given all technological relations, *i.e.*, production functions; tastes of the individual in an ordinal—as opposed to a cardinal—sense. For generality, we include in the individual's scale of preferences the amounts of the various kinds of productive services (inputs) rendered.

Under these assumptions it is possible to reduce our technological relations to the following implicit form:

$$\varphi(x, y, a, b) = 0$$

where  $x$  and  $y$  are the amounts of commodities produced per unit time, and  $a$  and  $b$  are amounts of productive services rendered per unit time. This relationship is to be interpreted as follows: for any pre-assigned amounts of  $y$ ,  $a$  and  $b$ , there is a maximum amount of  $x$  which can be produced;  $x$ ,  $a$  and  $b$  being held constant, a similar argument holds for  $y$ . Furthermore, for given amounts of  $x$ ,  $y$ , and  $b$ , there is a minimum amount of  $a$  necessary; and likewise for  $b$ .

If we regard the amounts of  $a$  and  $b$  as fixed, the resulting relationship between  $x$  and  $y$  is the familiar *substitution* or *production indifference curve*. Contrary to the usual exposition, this curve is not a technological datum. Its derivation is essentially an economic problem and imposes certain equalities on the marginal physical productivities of non-specific factors. We shall take its derivation as having been performed and shall make the usual assumptions as to its shape, deducible from the law of variability of proportions (see Figure I). Be it noted that there is not one substitution curve, but one curve for any pre-assigned pair of values for  $a$  and  $b$ .

Taking account of this implicit relationship between our variables, the individual acting in isolation selects that combination of variables, consistent with the above relationship, which is most preferable to him, or which maximizes any index of his utility. This imposes as a condition of equilibrium the equivalence of the ratio of marginal utilities (rate of consumer substitution or indifference) to the slope of the production indifference curve, drawn up as of the optimum values of  $a$  and  $b$ . The optimum values of  $a$  and  $b$  are determined at the point where the derived utility of

them, *i.e.*, utility of their marginal physical product, is equated to their marginal disutility.<sup>2</sup>

It will be seen from the above that the doctrine of opportunity cost, properly stated, in no way contradicts the so-called pain-cost theory of value. In fact, when stated with full qualifications, the doctrine of opportunity cost inevitably degenerates into the conditions of general equilibrium.

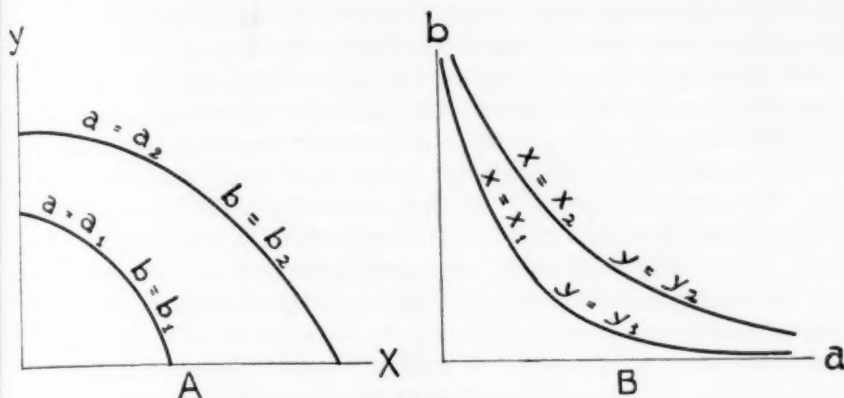


FIGURE I

It may be well to point out that the maximum conditions stated above could have been achieved by means of a system of pricing. As a matter of bookkeeping the individual might employ the fiction of setting provisional prices upon all commodities and factors of production. After a series of successive approximations, the equilibrium set of prices achieved would be such as to satisfy the various marginal conditions. Undoubtedly it is this "parametric" behavior of prices, which does yield a maximum position in a Robinson Crusoe economy, which accounts for the popularity of perfect competition with many orthodox economists, and the identification of this condition as an optimum one. That this involves the fallacy of composition will be demonstrated later.

One final point deserves emphasis. Since there exists only a scale of preference in an ordinal sense, it is impossible from the very nature of our original assumptions to evaluate numerically the magnitude of the amount of gain to an individual in moving from one position to another.<sup>3</sup>

<sup>2</sup> Although use is made of utility and disutility, only ratios of marginal utility and disutility are involved, and so all conditions could just as well have been expressed in terms of indifference directions, since the cardinal magnitude of utility is not in question.

<sup>3</sup> The attempt to measure gain by consumer's surplus is valid only under much more restrictive Marshallian assumptions of the existence of independent utilities with constant marginal utility of money. The use of index numbers can really only serve in this connection to determine under favorable circumstances the direction of the change—whether more or less preferred. This is not intended to be in contradiction to the use of an index number as a measure of the cost of living in different situations.

Thus, the attempt to compare the relative gains of different individuals is ruled out, entirely apart from the possibility of making inter-individual comparisons.

## II

Hitherto, we have been dealing with an individual in isolation. Turning now to the consideration of two or more individuals engaged in some form of trade, the essential difficulties of the problem arise.

For simplicity let us consider only two individuals under the conditions elaborated above. It is necessary to distinguish sharply among at least three different kinds of movements which might take place as the result of the opening up of trade or of a change in the form which trade takes. (1) Both individuals may get more of every commodity while performing less of every productive service. Such a movement from almost any ethical standpoint must be regarded as an improvement and as a desirable one. (2) Each individual moves to a position higher up on his preference scale, although some of one commodity may be foregone in order to receive a more than compensating amount of another. Similarly there may be changes in the amounts of productive services rendered which are more than compensated for. Such a movement also would probably be considered desirable, although considerable knowledge of the scale of preference of each individual would be needed in order to identify such a movement. (3) One individual is moved to a lower position while the position of the other is improved. In the absence of additional ethical assumptions of a very complete kind, it would be impossible to determine whether or not such a movement would be desirable. To say that the marginal social utility of each good should be equal for every individual is to leave entirely unanswered the question as to how such a magnitude is defined. Here no attempt will be made to inquire into the various possibilities in this field.

In the case of the individual's acting in isolation, the maximum position achieved was such that a movement in any direction led to a less preferred situation, just as any movement from the top of a hill must be in a downward direction. It is precisely because of the usual assumptions of continuity that the mathematical characterization of a maximum position by certain equalities of differential coefficients (equivalences at the margin) is able to express certain inequalities for finite movements.

It would be tempting in the case of trade between two individuals to define as the equilibrium position any situation from which there is not possible any movement of the first two kinds. Clearly any tentative position reached from which both could move and be improved could not be regarded as an optimum position. However, it will be shown that there does not exist one point—or even a finite set of points—which forms the solution of these conditions. That is to say, there exists an infinite set

of conceivable situations such that no movements are possible which better both parties.

This may be illustrated by the extremely simple case of barter between two individuals, each endowed with initial amounts of the various commodities.

In this case it is well known that by mutual agreement each party will finally land somewhere on the Edgeworthian contract curve. This is the locus of points (note, not a single point!) at which the ratio of the marginal utilities of the various goods are equal for both individuals. From such a locus there is no possible movement which does not injure one party. Moreover, from any point not on the contract curve, there always exist possible movements of the first two kinds. The ruling out of such movements does not serve, therefore, to pick out an optimal point of equilibrium, but rather narrows down the possibilities to a locus of points, still infinite in number. A movement along the contract curve is necessarily of the third kind concerning the desirability of which the economist, as such, has nothing to say.

Consider then the equilibrium which will result when both individuals behave like competitors, *i.e.*, each considers prices as given, but both together determine the prices at that level which will equate the amounts demanded and supplied of all commodities. This equilibrium is represented by the intersection of the familiar Marshallian offer curves.

Two things are obviously true in this case. First, in the final equilibrium established, each individual will be better off *than in the absence of any trade at all*. Second, the equilibrium point will lie somewhere on the contract curve, since the ratios of marginal utilities of all goods are equal to the ratios of the common prices, and hence equal to each other.

Thus, and this is the crux of the argument, under free trade both parties are better off than under no trade at all, but are not necessarily in *the* optimum position. There is absolutely no presumption whatsoever that this equilibrium point is superior in any sense to any other point on the contract curve; for the movement between any two such points is of the third kind, about which nothing can be said.

The very fact that any trade takes place is an indication that both individuals are better off, since each can at the very worst refuse to trade. Economists have proved this at great length in many ways under the mistaken impression that they were at the same time proving the desirability of free trade.

The free trade equilibrium point very obviously is not the most preferred point to any one country. Its maximum would occur when the other country consumes nothing, and it consumes all. Obviously the other country would not consent to this, since it need not trade at all. Under favorable circumstances of higgling, one country might be forced to a point on the contract

curve at which it received an infinitesimal gain from trade, and vice versa. There is absolutely no ground for saying, or no sense in stating, that the free trade point is the point of fair compromise, since only movements of the third kind are involved. In fact, one country behaving like a competitor, it can be shown that it is always to the advantage of the other not to so behave, but rather to take account monopolistically of its own effect on price.<sup>4</sup>

A very similar argument holds *a fortiori* in the more general case where output in each country is variable. It could be easily shown that there exists a production locus, analogous to the contract curve, along which certain ratios of equivalence of marginal productivities hold, and from which all movements are of a kind to decrease the total potential productivities of all goods in both countries. But, as before, this is a locus and not a point. The demonstration that under free trade this locus is attained, in no way establishes a presumption in favor of the point so reached.

### III

Nothing said here is in fundamental contradiction to the orthodox theory of comparative costs in international trade. But if the thesis here presented be accepted as valid, it should serve as a warning against a possible misinterpretation of the classical theory.

Furthermore, this thesis must not be construed as being necessarily contrary to the political question of free (or freer) trade. It may well be argued that modern tariff and quota restrictions are of the sort that their abolition would in many cases result in the betterment of all parties concerned. But, as a matter of scientific integrity, it would seem desirable to clarify economic theory on these issues.

PAUL A. SAMUELSON

*Harvard University* ✓

<sup>4</sup> The monopolistic country will move the other along its offer curve up to a point of tangency of that locus with the monopolist's indifference curve.

## COMMONWEALTH GRANTS TO THE STATES IN AUSTRALIA

Australia has recently been making experiments in public finance which should be of interest to all students of federalism. The problem which occasioned the experiments is one common to all federal countries: how to adjust the financial relations between the national government and the states. In a federation some functions are handed over to the national government; others are retained under state control. Sources of revenue have also to be divided so as to provide adequate revenues for both spheres of government, and often it is necessary to make some special adjustments by providing that subsidies be paid from the national treasury to the states. But any scheme which is framed for the satisfactory performance of these difficult tasks at a given period is bound to become inadequate with the passage of time. Conditions change; some states will be more and some less fortunate in their economic progress. Thus readjustments become necessary, and in Australia an attempt has been made to work out the principles upon which one type of readjustment should be based.<sup>1</sup>

Although many parts of the Australian constitution were framed according to the example of the United States, the federal-state financial terms did not follow any American precedent. In 1901 the Australian constitution provided that three-quarters of customs and excise collections, and all surplus revenue should be paid to the states as grants from the Commonwealth. It was believed that after a period of ten years these grants would be abolished. But instead, in 1910, a new system of grants of 25s. per capita was substituted<sup>2</sup> which lasted until 1927.

Until the war these financial arrangements, despite much bickering, caused no serious trouble. But after 1914 the Commonwealth was forced to levy heavy direct taxes, thus entering a field which the states had hoped was their own. Furthermore, the marked rise in the price level meant that the per capita grants shrank in value. In the six years, 1915-1920, the state governments piled up deficits of £7,641,000. And the years following brought no relief. The Commonwealth, burdened with war charges, did not withdraw from the field of direct taxation, and yet the states ventured upon an extensive developmental program. In the seven years after 1920 their debt grew by £253,000,000, making in the year 1927 a state debt of over £110 per capita.

The serious financial position of the states, coupled with dissatisfaction over the existing scheme of Commonwealth-state finance, led to important changes in 1927-28. The per capita grants were abolished and in place of them the Commonwealth took over all state debts, and it agreed to provide

<sup>1</sup> See the four *Reports of the Commonwealth Grants Commission* (Canberra) for 1934, 1935, 1936, and 1937. These reports contain an excellent statement of the political philosophy of federalism.

<sup>2</sup> The Commonwealth ceased distribution of the surplus revenue in 1907.

£7,584,900 a year—an amount equal to the per capita grants for 1926-27—toward meeting the interest charges, while the remainder was to be furnished by the states. A sinking fund of 7s.6d. per £100 was to be established against state debts, to which the Commonwealth was to contribute 2s.6d. On all new state debt a sinking fund of 10s. per £100 was to be provided, to which the Commonwealth was to contribute 5s. A Loan Council was given control of all future borrowing, both Commonwealth and state.<sup>3</sup> The immediate result of the new financial agreement was to enlarge the payments made by the Commonwealth to the states, but the amounts paid no longer grew automatically with population. Of much greater significance was the improvement in state credit because of the sinking fund provisions and the control which was established over future borrowing. The extent of the control was not realized at the time, but after the onset of depression when New South Wales attempted to default on its bond interest, the Commonwealth was able to get control of the whole tax system of the state.<sup>4</sup>

This summary account indicates that, throughout its history, the Commonwealth has provided a considerable portion of state revenue. In the early years the grants were about 25 per cent of state revenue, but as the states developed other sources of income, the figure fell, and in the years before the financial agreement the per capita grant provided something more than 7 per cent of the state revenue. Under the terms of the financial agreement there was an increase in Commonwealth grants,<sup>5</sup> but it must be emphasized that then the payments went toward the servicing of state debt, and that an appreciable control of future borrowing had been secured. In this way the possibility of abuse of the subsidies had been eliminated.<sup>6</sup>

### *Special Grants*

In addition to the grants discussed above, the Commonwealth has also made special grants to certain states under Section 96 of the constitution. Western Australia has received such grants each year from 1910, Tasmania from 1912, and South Australia from 1929. At first these special grants were given in relief of disabilities which, it was expected, should soon disappear. But the grants were continued, and *ad hoc* investigations of the

<sup>3</sup> There were a few exceptions.

<sup>4</sup> In the opinion of Professor Copland the result of this dramatic struggle was to establish the principle "that a state which fails to meet its interest obligation may have its independence destroyed" (*Australia in the World Crisis, 1929-1933*, New York, 1934, pp. 82-3).

<sup>5</sup> Thus in 1928-29 the amount of the per capita grants would have been £7,906,000, while the amount paid under the agreement was £8,517,000.

<sup>6</sup> The grants discussed above do not represent all the payments made to the states. The Commonwealth has also given grants on a 25-75 per cent basis in aid of road construction; since the depression it has paid large sums toward relief of unemployment and for relief of primary producers; and it has made special grants to certain states.

case of particular states formulated no satisfactory principles upon which a consistent policy might be built. Finally in 1933, partly as a result of secession agitation by Western Australia, a Commonwealth Grants Commission of three members was appointed for three years to pass upon applications for special grants; and in the reports of this Commission will be found a helpful discussion of many of the financial problems of Australian federalism.

The immediate task of the Commission was to report on the demands of Western Australia, Tasmania, and South Australia for special grants. These "marginal states"—the term is applied by the Commission—contain "a relatively large area on the fringe of the rather exiguous portion of the continent which can be cultivated."<sup>1</sup> Their development has required a large expenditure in advance of settlement, and their governments, optimistic about the long-run results, have spent heavily for developmental purposes designed to encourage primary industries which relied upon overseas markets. The Commonwealth, however, has also pursued a developmental policy, using the tariff as its instrument; and this policy, while advantageous to Australia as a whole, has put disproportionate burdens upon the three claimant states. This policy of protection has also increased regional specialization of secondary industries within Australia, to the injury of the marginal states which are devoted mainly to primary industry. The outcome has been political conflict, because Australia is a federal country with state governments which endeavor to safeguard the interests of their constituents. Thus, policies must be framed which will reconcile the heterogeneous interests of the conflicting states, and, in particular, allow the weaker political units to function successfully.

In bald summary, these were the considerations which the Commission had to appraise in passing the grievances and claims of South Australia, Tasmania, and Western Australia. Some of the remedies suggested—assumption of certain state functions by the Commonwealth, distribution to the states of the proceeds of selected Commonwealth taxes—are discussed only briefly and inconclusively by the Commission. It decided that special grants would provide a satisfactory remedy for the problems brought to its attention, and its reports examine in detail the grounds upon which such grants should be based.

Of the many grounds suggested by Western Australia, Tasmania, and South Australia, two—their net disabilities due to federal policies and the poverty of their natural resources—are given detailed examination. The principal disability complained of by the states arose out of Commonwealth tariff policy; but the Commission, while admitting the unequal incidence, pointed out that the pertinent issue is net disability from all federal policies.

<sup>1</sup> Commonwealth Grants Commission, *Third Report* (Canberra, 1936), p. 36.

No adequate statistical appraisal of gains and losses by states is possible. Yet the Commission, by making reasonable assumptions, is able to show that the claimant states would not be entitled to substantial grants on this ground.<sup>8</sup> And quite apart from this pragmatic result, the Commission declares against disabilities as a basis for grants. What if a state government, despite adverse Commonwealth policies, was in a sound fiscal condition? Ought it to be given a special grant? The answer of the Commission is an emphatic negative.

States federating expose themselves to certain hazards, and must stand by their decision. It cannot be expected that federation will have precisely the same effects on the prosperity of all states.<sup>9</sup>

The Commonwealth must adopt policies which seem desirable for the nation as a whole, and a strict debit and credit account for each state would negate the purposes of federation. There is, however, one repercussion of Commonwealth policy which the Commonwealth regards as a ground for special grants. If the financial position of a state government is impaired, so that it cannot function on a reasonable Australian standard, then the Commonwealth should be prepared to give relief.

The plea that the states should be given special grants because of poverty of natural resources is also rejected by the Commission.

However poor a state, it need be under no disability if its population is proportionate to its resources. If it is over-populated the excess population should move. It would be wrong to give subsidies to the people of a state to make up for poverty of resources. Such grants would encourage a population which in the long run cannot be maintained and would thus perpetuate an uneconomic regime.<sup>10</sup>

But again the Commission, while rejecting poverty as a general ground for grants, admits that, so far as this affects the financial position of a state government, special assistance may be justified.

Thus the ground which the Commission adopts as a basis for special grants is the fiscal need for a state government. This need may arise because of the adverse effects of Commonwealth policy, because of world-wide economic changes which prostrated certain industries, or because of over-optimistic developmental expenditure which brought heavy capital losses. Whatever the reason, a state government must be put in a position to carry out its functions on a reasonable standard.

The determining condition of finance is independent of the cause. The necessity to keep a state solvent is equally paramount, whatever the cause may be.<sup>11</sup>

<sup>8</sup> *Third Report*, p. 68.

<sup>9</sup> *Third Report*, p. 82.

<sup>10</sup> *Ibid.*, p. 72. In the *Fourth Report*, p. 50, this statement is made: "The Commission cannot set itself up as an agency for correcting the effects of unalterable natural conditions, or for diverting the natural movement of labour and capital."

<sup>11</sup> *Second Report*, p. 37.

Certain queries come to mind at once. How is fiscal need to be measured? May not special grants based on fiscal need destroy the financial responsibility of the claimant states, since the consequences even of their mistakes will not be visited upon them? Is a poor state government, because it is a member of a federation, to spend upon the same scale as a richer one? Will not special grants perpetuate maladjustments which should be remedied by the brutal operation of economic forces? The Commission supplies the answers to some of these questions. It is aware that the financial responsibility of the claimant states must not be broken down. Fiscal needs must be interpreted with "austerity," and a state must make a "reasonable" effort to solve its own problems. How are need and effort to be defined and measured? Obviously a comparison must be made between the fiscal situation of the claimant and non-claimant states.

The Commission takes as "normal" the standards of expenditure and of taxation of the three state governments (Victoria, Queensland and New South Wales) which did not ask for special grants.<sup>12</sup> A detailed comparison of the expenditures of the claimant states with this normal is made: the scale of social expenditures, costs of administration, maintenance of capital equipment are analyzed. Similarly, the systems of revenue of the claimant states are related to the normal by a careful comparison of severity of taxation<sup>13</sup> (including local taxation) and of the scales of charges levied by state enterprises. Obviously such comparisons require that the public accounts of the states be kept on a reasonably uniform system, and that items of expenditure and methods of taxation be similar. In Australia these conditions are at least approached, and the Commission, by making common-sense adjustments, was able to get acceptable figures.

After the Commission had discovered how each of the claimant states stood in relation to the normal in expenditure and taxation, it did not conclude that special grants should be given equal to the deficiency. Some extra effort through curtailment of expenditure and severity of taxation should, it thought, be demanded from the claimant states in order that they might have an incentive to improve their financial position by their own efforts. If the difficulties of a state were traceable to its own mistakes, the effort required of it should be relatively greater than if a state suffered from influences beyond its control. But in any case the Commission believed

<sup>12</sup> In the first three reports New South Wales was left out of the comparison because its budget had many abnormal features.

<sup>13</sup> The most ingenious computation of the Commission was its index of the severity of taxation. An index of taxable capacity for each state was obtained by using the federal income-tax returns, supplemented by information about wages so as to take account of small incomes which were exempt from the federal tax. Next an index of tax collections per head for each state, adjusted so as to take account of local taxation, was prepared. Finally the index of collections was divided by the index of capacity, and the result was regarded as an index of the comparative severity of taxation.

that the possibilities of economy were narrowly circumscribed. Some types of state expenditure, *e.g.*, debt charges, are unadjustable; others can be curtailed by reductions in personnel or in rates of pay, but not so as to produce marked variation between the states. On the side of revenue the situation was similar, since marked differences in rates of taxation might cause undesirable shifts of capital and labor between the states. The Commission therefore concluded that a reduction in social expenditure of 10 per cent, and an extra effort of 10 per cent in severity of taxation were the most that could be reckoned against a claimant state. Actually in its calculations for 1937-38 the Commission figured a 10 per cent reduction in "standard" social expenditure for all three states, and for South Australia and Western Australia an additional effort equivalent to 6 per cent and 5 per cent respectively of standard taxation.<sup>14</sup>

The net result of the calculations of the Commission for the past four years were recommendations of special grants as follows:

Year	Western Australia	Tasmania	South Australia	Total
1934-35	£600,000	£400,000	£1,400,000	£2,400,000
1935-36	800,000	450,000	1,500,000	2,750,000
1936-37	500,000	600,000	1,330,000	2,430,000
1937-38	575,000	575,000	1,200,000	2,350,000

It will be seen that there has been a reduction in the last two years over 1935-36. But the payments recommended by the Commission have been appreciably larger than those given by the Commonwealth in the years before the Commission was set up.<sup>15</sup>

### Conclusion

Australia has thus built up an extensive system of subsidies consisting of (1) grants paid to all the states under the terms of the financial agreement of 1927, and (2) special grants based upon fiscal need.<sup>16</sup> The grants of the first type will grow only as state debt grows, and over this the Commonwealth has a significant control through the Loan Council. The important fact is that in 1927 these grants, which had been given to the states without any conditions as to use, are now conditional grants for the servicing of debt. The second type represents an experiment in federal-state finance which should be watched. The Commonwealth Grants Commission is at present determining the amount of these grants, and it has laid down prin-

<sup>14</sup> *Fourth Report*, p. 77, p. 83. The percentage reduction in "standard" social expenditure was nominally less in the previous years.

<sup>15</sup> The total of special grants for 1936-37 was greater by 12.3 per cent than that for 1933-34, and by 24.7 per cent than that of 1932-33.

<sup>16</sup> Conditional subsidies in aid of road construction and maintenance have also been used.

ciples which, whatever their defects, are better than any of the bases previously suggested in Australia. If variable unconditional grants are to be given to the states, then fiscal need is a logical basis.

Any grants of this sort infringe on the doctrine of fiscal responsibility—that responsibility for raising revenue and freedom in spending it ought to go hand in hand. The Commission recognizes the force of this doctrine.<sup>17</sup> Admittedly the claimant states can spend the special grants as they please; but their whole system of expenditure and of revenue is taken into account in settling upon the amount of their grants. Loose financial practices can, therefore, be penalized; and, although this procedure may be criticized as equivalent to a delayed locking of the stable door, it may be made effective.

But certain practical obstacles may be envisaged. Will the Commission be continued as a permanent body with a strong personnel? If continued, and if its recommendations are accepted by the Commonwealth Parliament, can it do its job without arousing state animosities? In its work, the element of judgment cannot be eliminated. Detailed statistical comparisons are made, and these are a very real assistance to judgment. But many facts are lacking, and comparisons must be made of policies which are not strictly comparable. The Commission has to decide whether this or that state expenditure was extravagant, and so far it has been commendably frank. South Australia had continued "experiments [in dry-farming] after the limits of profitable development had been determined by experience"; Western Australia had indulged in "reckless financing of wheat settlement . . .," and in one of its dairying schemes "miscalculation and mismanagement were present"; Tasmania had shown "some lack of foresight and enterprise."<sup>18</sup> Frank expressions of opinion, even when correct, may arouse resentment, and if at times the Commission is incorrect in its appraisal, the revulsion may be serious. The significance of the method of the Commission depends on the searching scrutiny which it makes of state budgets,<sup>19</sup> and such scrutiny should be continued. But it would appear to make possible collision with state governments.<sup>20</sup>

The special grants should, under the plan of the Commission, vary yearly according to the fiscal needs of the claimant states.<sup>21</sup> When the Commission began its work in 1933, these states were in serious condition,

<sup>17</sup> *Third Report*, p. 19.

<sup>18</sup> *Third Report*, pp. 126-27, 130.

<sup>19</sup> So far the scrutiny has, as an incidental result, brought to light defects in state accounting which were of long standing.

<sup>20</sup> In the *Fourth Report*, p. 16, the Commission protests at criticisms which the states have made against details in its computations and procedure. South Australia in particular had been resentful about reductions in its grant.

<sup>21</sup> Necessarily the figures upon which the Commission makes its calculations are a record of the immediate past. Thus in deciding what grants to recommend for 1936-37 the Commission looked at the financial records of 1934-35.

which justified grants considerably in excess of previous awards. But these emergency conditions will disappear and the conclusion may, perhaps, be implicit in the premises of the Commission that special grants ought also to disappear. If the government of a state is in fiscal need because of mistakes in policy, or because of the aggravated (yet temporary) incidence of business depression, special grants should be given. But as mistakes are rectified or liquidated, and as depression disappears, it would seem to follow that the grants should be withdrawn. If the government of a state is in fiscal need, through no fault of its own, because of federal policy, or because of a continuous and persistent shift in economic trends, again special grants should be given. But in time corrective forces should operate; capital and population should move out of the retrograde area, and the state budget should be put in balance by adjustment to a lower level of expenditure. The Commission does not draw these conclusions, and doubtless it could suggest that in the short run *some* state governments will always be in fiscal need for *some* reason. But it will soon face the problem of making further reductions in the grants, and this will put the scheme to a real test. Possibly other alternatives for solving the financial problems of federalism, such as readjustment of functions and use of conditional subsidies, should be considered.<sup>22</sup>

J. A. MAXWELL

*Clark University*

<sup>22</sup> There is, of course, a danger to state autonomy in special grants (and in conditional grants) because through them the Commonwealth can gain some control of state activities.

## CLASS PRICES FOR GAS AND ELECTRICITY

Classification of gas and electric customers and application of different rate schedules to these customer classes have been frequent sources of controversy between public-utility producer and consumer interests. Application of monopoly-pricing analysis, where there are probable differences of demand elasticity among such consumer groups, reveals a basis for discriminatory pricing to maximize profits when regulation is assumed to be non-existent or when regulation is ineffective. Though a similar variation in costs of service sometimes provides a defense for such pricing, precise determination of these costs in a joint-cost situation is impossible; and sometimes it seems that other factors than costs of service explain the differences in these class prices. Even though utility regulation were more effective than it now is, elimination of all returns in excess of the allowable "fair" return may be a questionable regulatory policy. Exercise of regulator's judgment seems necessary in division among customer classes of an ordered reduction of a company's revenue.

### I

Only casual examination of public utilities will reveal, especially for "local" utilities, numerous and still growing consumer or use classifications of service. Within this welter of rate schedules applicable to classes of service there may be seemingly an absence of a company rate-making policy. But it is possible that these numerous rates are evidence of a degree of monopolization even though there is regulation. Here demand, cost, and price matters will be examined in gas and electric utilities for monopoly features which it is the avowed purpose of regulation to remove or minimize. Use of such common but abstruse phrases as "value of service" and "what the traffic will bear" will be avoided. Although much that may be said here applies to all public utilities and utility regulation, the article generally has been limited to gas and electric industries because price discrimination is common among these utilities and because this restriction permits observation occasionally of prevailing price, demand, and cost conditions in these industries.

### II

Like a monopolist, a utility company, whether or not it is carefully regulated, may seek further maximization of profits by applying different rate schedules to the several groups of buyers who have been classified according to characteristics of their demand. Some background on the details of demand characteristics of different users of electricity and gas is essential, therefore, to a clearer understanding of the succeeding analysis. Electricity customers are commonly classified according to lighting, power, and heat uses, and within these classes there is frequently further division into large and small customers. Within the range of prevailing prices, power and large electricity customers<sup>1</sup> generally have a more elastic demand than small and lighting customers, though there are no data available which permit precise measurement of these elasticities of demand for electricity sold by a public-

<sup>1</sup> Large customers are usually power customers, although there are many large lighting customers.

utility company. Regardless of the use to which electricity is put, it must be admitted that substitutes for electricity are not always suitable alternatives. For lighting purposes most present buyers, particularly small customers, will not turn to such alternatives as candles, gasoline, or kerosene; nor will they build their own plants unless the prices asked for electricity are considerably higher than prevailing prices for this use. Nor will there be much increase of use among lighting customers if prices are markedly lowered.<sup>2</sup>

The demand of industrial purchasers for electricity is more elastic than the aggregate demand of small storekeepers or residential lighting customers. Particularly for large industrial customers, electricity must be sold at a price comparable to the price of other sources of power or heat, otherwise these sales will be lost.<sup>3</sup> These consumers also have the alternative of constructing their own electric-generating systems.<sup>4</sup> It appears, therefore, that industrial buyers have a relatively elastic demand for electricity. Although it is more common for large industrial companies to install their own electric systems, development of small Diesel-powered units has made sales to smaller industrial plants sharply competitive. Residential customers, though they appear to have a relatively inelastic demand for lighting use of electricity, have a more elastic demand for electricity used in refrigeration and cooking, because the price of electricity here must compare favorably with cost of alternatives: coal and gas particularly compete with electricity for cooking and ice and gas for refrigeration.<sup>5</sup> Expansion of the electric market, it will be noted, has chiefly been toward uses for which there is a relatively elastic demand.

Both manufactured and natural-gas utilities encounter competition from other fuels for nearly all uses of gas. It is possible, therefore, to speak only

<sup>2</sup> The farm electrification market remains only slightly developed, because the investment in distribution lines, especially in sparsely settled areas, would be tremendous, or because many farm owners and tenants cannot afford electricity except at a nominal price. Highway lighting, likewise, has not been developing because of the high construction cost of distribution lines and other equipment.

<sup>3</sup> Peculiar to gas, electric, and water utilities is customer ownership of appliances, although some companies are now leasing equipment to users of their service. Possession of equipment for utilizing a utility service tends to make the demand of attached customers relatively inelastic. Only when cost or inconveniences (quality matters of cleanliness, etc.) of utilizing the service in owned equipment increase relative to alternatives will consideration be given to transference to other sources of service. Customers may have, too, more elastic demand for utility service when they initially put the service to some new use than after they have been conditioned to its use.

<sup>4</sup> U. S. Department of Commerce, *U. S. Census of Manufactures*, 1929, v. i, p. 112. Between 1914 and 1929 the proportion of the rated capacity (h.p.) of electric motors to the rated capacity (h.p.) of all installed primary power of the nation's manufacturing industries increased from 38 per cent to 82 per cent. The proportion of these industries' electric motors (measured in horse power of rated capacity) being operated with purchased electricity increased from 44.3 per cent in 1914 to 64.8 per cent in 1929.

<sup>5</sup> Cf. B. N. Behling, "Competitive Substitutes for Public Utility Service," *Am. Econ. Rev.*, v. 27, 1937, pp. 17-31.

of differences in elasticity of demand for the customer classifications, since it is likely that in most classifications the elasticity of demand for utility companies' gas is greater than unity.<sup>6</sup> Competition from other fuels may be sharper for some uses than for others. All attempts to sell gas to industries or for house-heating have brought gas companies into an unregulated competitive conflict with coal and fuel oil sellers. Prices charged for these uses of gas are limited as a maximum by the price of coal and fuel oil and whatever factors, such as cleanliness, safety, control, may be operative.<sup>7</sup> The degree of competition will vary geographically and in point of time. There is, for example, scarcely any competition between natural gas and coal but much from fuel oil in or near gas fields; and the low depression prices for fuel oil between 1931 and 1934 cut sharply into gas utilities' drive for a larger house-heating "load." Similarly, such technological changes as those which led to recent construction of long-distance, seamless-steel natural gas pipe lines may alter competitive relationships.

The demand for gas used for cooking—its dominant use until the campaign since 1920 for more industrial and house-heating sales—is less elastic than demand of other principal customer classes. But there is no evidence to indicate whether the demand elasticity for this use is greater or less than unity. Commonly the effective alternatives are coal and electricity. Although there has been a notable increase in electric range sales, gas companies have been holding their relative place in cooking sales of gas. Here one notes the many attempts by gas and electric companies, particularly by advertised appeals, to condition customer demand to relative inelasticity. And, furthermore, once a customer is committed to the use of gas for cooking purposes there will be no great change in quantity of gas used for cooking by the average customer.

This cursory examination of demand characteristics of classified gas and electric uses and customers will permit further analysis of public-utility pricing, especially where there are marks of monopolistic pricing.<sup>8</sup> It is commonly known that the gas and electric customer classifications with less elastic demand are charged higher rates than other customer groups.<sup>9</sup> Reasons for regulators' failure to remove these aspects of monopoly pricing

<sup>6</sup> Cf. Barclay J. Sickler, "Relationship of Rates to Gas Sold per Customer," *Gas Age-Record*, v. 77, Jan. 4, 1936, pp. 4-6, 16.

<sup>7</sup> Space-heating and industrial-gas rate schedules provide sometimes for decreases or increases in rates with corresponding changes in fuel-oil prices.

<sup>8</sup> It should be incidentally observed that the demand for long-distance telephone business is more elastic than demand for local business. For the former telephone uses there are the effective alternatives of the telegraph and air-mail, but there are no equally suitable substitutes for local service. Despite existence of generally accepted substitutes, a portion of street-railway customers—those who cannot purchase an auto or afford taxi service—have a relatively inelastic demand within at least a limited price range for the service.

<sup>9</sup> Although monopolistic-pricing techniques are believed adequate for the analysis here, out of the confusion on definitions and limits of application of monopolistic competition,

and thus discourage or obstruct at least some of the price discrimination will be subsequently considered.

The following graph is a common form of illustrating monopolistic price discrimination, and, consequently, it is presented here only to facilitate this description of public-utility pricing.<sup>10</sup> The curves in Figure I are only an

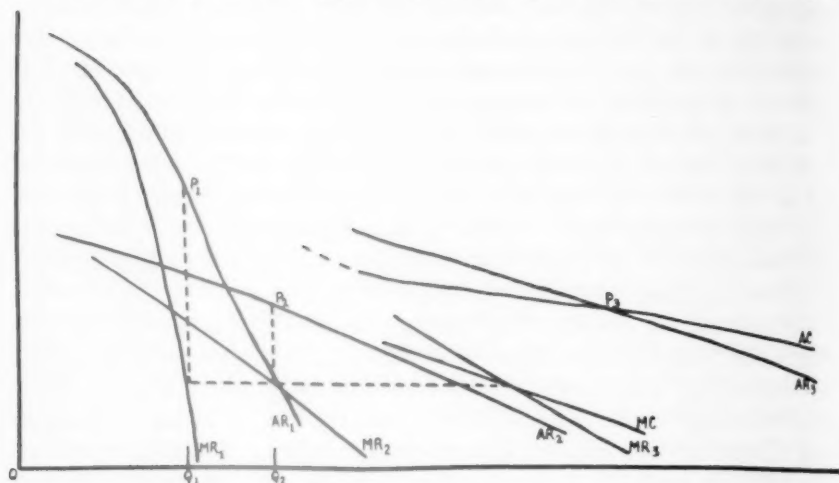


FIGURE I

approximation of existent demand and cost conditions—as was the foregoing description—and only two classes of customers have been used, one with relatively inelastic and the other with relatively elastic demand. More demand curves may be included, and although electric residential lighting and power customers have been arbitrarily selected for illustration, gas or telephone service may be similarly treated.

It is assumed that there will be no transference of customers from one

duopoly, etc., the guess is risked that competition of gas and electric companies in the same locality for cooking and refrigeration sales is an example of duopoly when each company is conscious of the rival's reaction. If no such consciousness exists, there may be monopolistic competition as similarly there might be for sales of gas or electricity for some industrial uses or of gas for house-heating. Cf. Edward Chamberlin, *The Theory of Monopolistic Competition*, Harvard Univ. Press, 1933; Horace G. White, "A Review of Monopolistic and Imperfect Competition Theories," *Am. Econ. Rev.*, v. 26, 1936, pp. 636-649; Edward Chamberlin, "Monopolistic or Imperfect Competition?," *Quart. Jour. of Econ.*, v. 51, 1937, pp. 557-580; Fritz Machlup, "Monopoly and Competition: A Classification of Market Positions," *Am. Econ. Rev.*, v. 27, 1937, pp. 445-451.

<sup>10</sup> Cf. Joan Robinson, *Economics of Imperfect Competition*, Macmillan, 1934, pp. 179-88; Raymond T. Bye, "Composite Demand and Joint Supply in Relation to Public Utility Rates," *Quart. Jour. of Econ.*, v. 44, 1929, pp. 40-62; Susumu Kobe, "A Criticism of Bye's Theory of Public Utility Rate-Determination," *Quart. Jour. of Econ.*, v. 44, 1930, pp. 706-10; Donald H. Wallace, "Joint and Overhead Cost and Railway Rate Policy," *Quart. Jour. of Econ.*, v. 48, 1934, pp. 583-619.

class to another and that none of the customers will be making "dump" or "off-peak" purchases. In this event of short-run determination of monopoly prices, *i.e.*, price fixation on the basis of cost characteristics of an existing or given plant, it is assumed that all of the existing capacity, exclusive of off-peak capacity, will be utilized at the same time in the most profitable division of sales between classes of customers.

The profit-maximizing prices will be determined by intersection of the aggregate marginal revenue and marginal cost curves,  $MR_3$  and  $MC$ .<sup>11</sup> A line parallel to the abscissa and drawn through the point of intersection of  $MC$  and  $MR_3$  cuts  $MR_1$  and  $MR_2$  at  $Q_1$  and  $Q_2$ , respectively. Perpendicular lines to the abscissa drawn from the latter points of intersection on  $MR_1$  and  $MR_2$  cut  $AR_1$  and  $AR_2$  at the respective prices of  $P_1$  and  $P_2$ . At these prices the sale of quantities  $OQ_1$  and  $OQ_2$  to lighting and power customers respectively will maximize net revenue.

Differences in elasticities of demand impel price discrimination, for customer classes with the same demand elasticity (iso-elasticity) would have average and marginal revenue curves with the same slope.<sup>12</sup> A monopolist will be interested in restriction of sales to the customers with less elasticity of demand—especially if a decline in total revenue results from increased sales at lower prices as would be the case if elasticity of demand is less than unity—and in increasing sales to those customers with the greater elasticity of demand. Sales will be sought where marginal revenue is greatest. And sales in the several divisions of the market will be adjusted to make marginal revenue equal for all classes of customers.

Having concluded that a monopolist would charge a higher price to the customer class with less elasticity of demand, *i.e.*, electric-lighting or gas-cooking customers, we may note at this juncture that there is a similarity of discriminatory monopoly pricing to actual pricing for some, if not all, public-utility services. Those customer groups observed to have the less elastic demand are charged higher prices. The analysis to the present has

<sup>11</sup> Plotting of the total revenue curve ( $AR_3$ ) was started at the price where sales could be made in both classifications of the market. Also, the  $AR_3$ ,  $MR_3$ ,  $MC$ , and  $AC$  curves were set to the right of their proper position on the abscissa scale to avoid congestion of the graph. A short-run average cost curve, *i.e.*, one based on the cost of utilizing an existing plant, is used here, although a long-run average cost curve may be used. Only the needed portion of the  $AC$  and other cost or revenue curves is shown, and  $MC$  was not plotted to the point of its intersection with  $AC$ .

<sup>12</sup> There will be an increase in output of the discrimination monopoly (in the absence of iso-elasticity of demand of buyer groups) compared to the simple monopolist's output when the "... elastic demand curve is concave and the less elastic curve is a straight line or convex" or when the elastic demand curve is more concave than the other curve. (Joan Robinson, *op. cit.*, p. 193.) Mrs. Robinson observes, too, that "... it is more likely that the introduction of price discrimination will increase output than that it will reduce it" since "... the demand of each individual buyer for any commodity is likely to be satiable. . . ." and since the demand curve below the "saturation price" will be "highly convex." (*Ibid.*, pp. 201-2.)

simply shown the likeness of monopoly price discrimination to pricing of utilities' service. But the analysis has not conclusively proved the existence of conditions conducive to and prompting such pricing policy. Subsequent treatment of regulatory controls will elaborate on this apparent sameness.

This graphical examination does not, of course, describe the circumstances under which this price discrimination may arise (and in fact has arisen in the case of ineffective regulation) among gas and electric companies. Description of differences in rates for several classes of customers usually runs in terms of utilization of otherwise unused capacity. In earlier years lighting sales of electricity or cooking sales of manufactured gas were considered the base "loads" of these utilities. Since most plants have always been constructed to serve more than existing "peak" demands,<sup>13</sup> commission approbation has usually been given sales of utility services which will make use of unutilized capacity (not strictly "off-peak" sales) provided the revenue obtained more than covers the variable expense.<sup>14</sup> This is equivalent to saying that more sales will be sought as long as the marginal revenue exceeds short-run marginal cost of the added business; short-run marginal cost here includes only the additional cost incurred in making these sales with existing facilities. And no new uses will be developed when the marginal revenue from an increment of sales in existing uses or classes of service exceeds similarly calculated marginal revenue from new uses or consumer classes.<sup>15</sup> Sometimes, moreover, cost reductions by means of technological changes or economies of large-scale output permit the rate reductions (the extent of which cannot be determined) which encourage additional usage by customers with the more elastic demand and which increase sales for the more competitive uses of utility service.<sup>16</sup> All that has been said here elaborates and is in accord with the conclusions pertaining to Figure I.

Much unused capacity exists during hours of the day, seasons of the year, or in business depressions, which is not taken up by the "regular" or "on-peak" customers. Electricity provides an excellent example of this unused, off-peak capacity, because inability to store electricity results in a daily peak

<sup>13</sup> Even in case of only one class of customers, which of course would be treated as a simple monopoly-pricing situation, there may be an opportunity to earn more than a "fair" return in view of current regulation deficiencies.

<sup>14</sup> The increase during the last 20 years in power, refrigeration, and heating sales of electricity makes questionable the treatment of lighting business as the base "load." Similarly, treatment of cooking sales of manufactured gas as a base load is objectionable because of increases in gas sales for industrial and space heating.

<sup>15</sup> Within established limits of plant capacity changes in marginal cost are assumed to be the same whichever customer group alters its purchases.

<sup>16</sup> Sometimes when unutilized capacity is large and while business is being developed, temporary service at low rates is offered to industrial customers. The "surplus" natural-gas rate schedule of the Pacific Gas and Electric Company is an example. Notably low rates are offered by this company, but such industrial customers must be ready at any time to transfer to another fuel if regular customers' purchases necessitate additional use of the pipe line by them.

as well as seasonal and business prosperity peaks of sales. Special rate schedules for sale of electricity for hot-water heating in early morning hours, of gas for bakeries operating at night, and of telephone calls at night represent energetic attempts of utility companies to add to net revenue by increasing off-peak business. Although pricing of these sales cannot be handled by the same means used in Figure I, a utility company desires this sort of business as long as the marginal revenue obtained exceeds the short-run marginal cost of it. Thus, a further addition is made to net revenue. When this source remains incidental to and distinctly separate from the principal sources of revenue, *e.g.*, does not entail construction of additional plant capacity and results in sales only at times when other customers are not using the system to its capacity,<sup>17</sup> it has no influence on the aforementioned price discrimination. It is, nevertheless, an explanation of another difference in utility prices. When a utility company because of limited off-peak capacity must choose, however, between types of purchasers or users for distinctly off-peak business—a condition not yet reached by gas, electric, and telephone utilities—sales providing the largest marginal revenue would be desired, if like marginal costs are assumed for the different uses.

In addition to the foregoing material, another feature of monopolistic pricing may be noted in gas and electric rate schedules. Within any single consumer classification, rate schedules generally provide for decreasing prices as consumption per customer increases. This is a sort of price discrimination which generally favors the large user or serves to induce new uses of utility services such as refrigeration, cooking, and the many appliance uses of electricity in a home. This resembles perfect monopoly pricing, which would eliminate any consumer surplus and which would be realized by fixing a different price for each unit of service, because consumers are at least roughly charged according to their demand prices.<sup>18</sup>

### III

In several ways public utility officials and students have endeavored to justify the existing price discrimination between customer classes. First, consideration will be given the argument which is based on more complete use of the existing capacity, *i.e.*, spreading the fixed cost over more units of output. By offering service at attractive rates many of the new uses of electricity and gas have been developed. This argument usually is presented in this fashion: any new business which pays more than its variable expense (short-run marginal cost) provides revenue that may be employed to reduce

<sup>17</sup> At prevailing off-peak rates, such customers would probably not be paying marginal costs if increased purchases by them necessitated an enlargement of plant capacity.

<sup>18</sup> Pigou describes this "degree of discriminatory power" as fixation of "... separate prices, in such wise that all units with a demand price greater than  $x$  were sold at a price  $x$ , all with a demand price less than  $x$  and greater than  $y$  at a price  $y$ , and so on." A. C. Pigou, *Economics of Welfare*, Macmillan, 1st ed., 1920, p. 244.

the fixed costs which would otherwise be assignable solely to existing business.<sup>19</sup> This conclusion is unquestionably applicable to off-peak business which will fill part of the "valleys" of a load curve; and it may be temporarily applicable without limitations on time of service use, when low rates are given to induce utilization of the unused capacity which remains after existing consumers have made their purchases at prevailing rates. This argument is acceptable, moreover, to the regular customers provided at least some of the excesses of marginal revenue over a short-run marginal cost are used to reduce their rates. But state commissions have not alertly forced the rate reductions implied in the argument.

It may be most economical to make a considerably greater increase in plant capacity than would be needed to meet immediately prospective increases of sales; the additional capacity might not be fully utilized for perhaps five years. When such unused capacity exists, it cannot be argued that sales should be made (except on a temporary basis) if the revenue obtained will only slightly exceed short-run marginal cost, measurement of which excludes the cost of furnishing the additional units of plant capacity. Since this extra capacity is installed to permit the utility company to meet requests for more service, revenue from regular, permanent customers, who use this once excess capacity, should cover long-run marginal cost, *i.e.*, marginal cost inclusive of the additional cost of providing the extra units of plant capacity. Otherwise, existing customers, especially those with less elastic demand, will be paying the cost of equipment that was installed to give a proportionately larger increase of service to future buyers with more elastic demand. Where expansion of plant capacity is not continuous, there must be, consequently, a spreading of the costs of this extra capacity among the customers who eventually make regular use of it.<sup>20</sup>

Public utility men, furthermore, defend different prices for several classes of consumers with claims that there are corresponding differences in the cost of service. They realize that power customers, for example, may be using electricity at the same time as lighting consumers, and thus power sales are not strictly off-peak business. Analogous cases of simultaneous purchases are observable in other utility industries. Consumer and producer interests are always presenting irreconcilable cost data, furthermore, to defend their respective positions. Especially troublesome is distribution of

<sup>19</sup> Mrs. Robinson concludes that "this argument would be valid if the monopolist was limited to earning a certain fixed profit, although the conditions of demand were such that he could make a larger profit." *Economics of Imperfect Competition*, *op. cit.*, p. 206.

<sup>20</sup> After noting the "lumpiness" and discontinuity of expansion of a railroad's capacity, Mr. Donald Wallace concludes that "judicious 'smoothing' of rate changes in transition from one scale of capacity to another is advisable," that a "rational rate policy would look ahead a few years to anticipate somewhat the appropriate rate structure of the near future," and that "existence of substantial discontinuity hampers attainment of a high degree of stability of rates." *Loc. cit.*, pp. 602-06.

the fixed costs.<sup>21</sup> And usually the antagonists in this cost controversy arbitrarily establish a basis of overhead-cost distribution without admitting that a joint-cost condition makes impossible accurate distribution of fixed expenses. It unquestionably costs more per unit of service to serve small and residential electric or gas customers than large and industrial consumers. Utility men, likewise, are right in holding that consumers with low-load factors (ratio of average to maximum sales for a selected period of time) should pay a higher price than the consumers with higher-load factors.<sup>22</sup> Having concluded, however, that differences in cost warrant rate differences, companies and commissions cannot accurately determine how much the rate differentials should be.<sup>23</sup>

Despite the prevalence of the customer, energy, and demand price divisions of many utility rate schedules, the writer does not know of any instance in which rates for several consumer classes have been fixed on the basis of precise cost calculations, although there may have been much empirical cost determination. Usually it appears that the gas and electric rate structures, as for railroads, simply grew up with the aforementioned aspects of price discrimination. There are, furthermore, several situations in which the cost argument clearly does not justify the prevailing rate differences. An example is the sale of gas for space heating. This is seasonal business and, as a result, the load factor of house-heating customers is a low one. On the basis of cost allocations, if they could be made, it is probable that house-heating customers should pay as much or more per unit of gas as do customers who use gas only for cooking. But gas prices for house-heating must compare favorably with prices for coal and fuel oil, otherwise many gas house-heating sales will not be made despite such claims as convenience, cleanliness, and controllability of gas. Utility managers also regularly point to the better daily load factor of industrial gas and electric consumers; but generally there has been no modification of these lower cost-of-service claims

<sup>21</sup> Number of rooms or floor space for residential customers and maximum demand for larger customers are common methods of determining the "demand" charge which is usually associated with fixed costs. The "peak responsibility" method, which would assess fixed costs in proportion to the amount of service purchased during the time of the company's "peak" load, is well known. Other, but more complex, procedures may be found among these references: H. E. Eisenmenger, *Central Station Rates in Theory and Practice*, Drake & Co., Chicago, 1921, pp. 26-53; W. J. Greene, "Determining Demand Charge," *Electrical World*, v. 26, Nov. 7, 1925, p. 947; H. W. Hills, "Demand Costs and Their Allocation," *Electrical World*, v. 89, Jan. 22, 1927, pp. 199-203.

<sup>22</sup> Residential-electric customers with their increasing use of appliances no longer have the poor load factor of the days when electricity was used in homes for scarcely anything other than lighting.

<sup>23</sup> An arbitrary distribution of fixed costs is illustrated by block-rate schedules with "quick-breaking" initial blocks which now are used occasionally for all classes of customers except off-peak users. Such schedules usually result in an approximately equal distribution of fixed costs per customer regardless of the quantity of service used.

when it is revealed that industrial customers make a large proportionate reduction in their purchases during a depression.

That many cost-reducing technological improvements are available only if there is a larger output, is another argument for reducing rates to encourage use by customers with relatively elastic demand. Because a decrease in marginal cost without any change in marginal revenue lowers the points of intersection on  $MR_1$  and  $MR_2$  with the horizontal line drawn through  $MR_3$  and  $MC$  (Figure I), an unregulated monopolist will give the bulk of such price reductions to consumer groups with the more elastic demand. The more inelastic the demand of buyers the smaller will be the rate reduction resulting from lowering of the point of intersection of  $MC$  and  $MR_3$ .

Because electric and manufactured-gas companies may usually control plant capacity within fairly wide limits, a plant may be constructed small enough to serve gas or electricity to only the customers with the least elastic demand. This condition eliminates the argument, which commonly prevails in analysis of railroad rates, that minimum limits in plant size often necessitate price discrimination if the plant is to be constructed.<sup>24</sup> This contention might apply, however, to some long-distance natural gas pipe lines, construction of which probably would not have been undertaken had it not been possible to obtain a large industrial and house-heating "load."

#### IV

Among the objectives sought by regulators is equation of average revenue and average cost. In Figure I the average price resulting from achievement of this goal would be  $P_3$ . Costs such as depreciation, the allowable return on a rate-base, advertising expense, new business expense, management fees, all of which are significant regulatory matters, are assumed to be determined. Where a company may get a larger return by price discrimination than that return fixed by its regulatory body, continuous fixation of average revenue equal to average cost would eliminate, at least deter, price discrimination; there would be no need, obviously, to seek better utilization of capacity or other production economies.

If a company, however, is not earning the return permitted by its regulatory body, it would desire to price discriminately that it might obtain at least a "fair" return. This circumstance may be encountered, for example, where a minimum capacity must be provided, as for the aforementioned railroads or long-distance natural gas lines. Under these conditions, regu-

<sup>24</sup> Analysis of railroad-rate variation relates largely to utilization of unused capacity, although expansion of facilities and the influence of this expansion on discrimination must be considered. Respecting railroad rates, Mr. Donald Wallace concludes that "discrimination should be progressively lessened as changes in demand conditions permit normal returns with less discrimination." *Op. cit.*, p. 601.

lators would be forced to choose between allowance of discriminatory pricing and continuance of the deficit condition. Thus, price discrimination among regulated utility companies may be a means of deficit minimization.

It is generally impossible for regulatory bodies with existing techniques of control to keep average revenue equal to average cost. Lack of funds, inadequate commission staffs, variation in competence of regulators, and the tortoise-like pace of regulation—which is partly attributable to the legal environment and procedures of control, including the fair-valuation process—forestall regular maintenance of total revenue equal to total cost. Rate investigations cannot be undertaken every year for every controlled company. And if a commission were to attempt frequent revision of rates for companies under its control, retrials and court appeals of cases might delay for as much as 5 or 10 years many of the proposed revisions. These prevailing imperfections of rate regulation may invoke pricing policies which will permit utility companies to obtain and retain increases in net revenue. Utility companies, knowing that they will not be compelled immediately (if ever) to equate average revenue and average cost, may attempt to increase net returns by discriminatory pricing. In the legal language attaching to utilities there will be an opportunity for more than a fair return.

It may be justifiably argued, however, that a regulatory body should not seek continuous, automatic equation of average revenue and average cost. Such carefulness of earnings control, of course, would affect growth, possibly financial stability, of companies; and customers with the less elastic demand probably would not obtain the rate reductions, however small they may be, which are attributable to per-unit cost reductions. Nor would management be rewarded for aggressively seeking profitable utilization of unused off-peak capacity and for addition of cost-reducing improvements. Only by awarding a portion of a profit increase to the company may there be continued reductions of the higher rates. Perhaps a periodic, say every five years, equation of each regulated company's average revenue and average cost would not disturb the efficiency of management.

Treatment above of equation of average revenue and average cost was in short-period terms, *i.e.*, on the basis of costs of an existing plant. A regulatory body may choose, however, to effect control over future cost by seeking the lowest point of intersection of an average cost curve (with inclusion of the above-noted rewards for management) with the prospective average revenue curve when alterations are made in regulated companies' plants. For this purpose a long-period average cost curve (an envelope),<sup>25</sup> which is drawn tangent to the several short-period average cost curves (parabolic

<sup>25</sup> The form of this curve may be obtained, for example, from: R. F. Harrod, "Doctrines of Imperfect Competition," *Quart. Jour. of Econ.*, v. 48, 1934, pp. 442-70; A. P. Lerner, "Statics and Dynamics in Socialist Economics," *Econ. Jour.*, v. 47, 1937, pp. 253-70.

in shape) representing different scales of output,<sup>26</sup> would be used.<sup>27</sup> The selection of a plant would be determined by intersection of the prospective average revenue curve and the long-period average cost curve. Whichever short-period average cost curve is tangent to the envelope at this point of intersection will be the average cost curve of the plant to be selected.<sup>28</sup> Except at the lowest point of a U-shaped envelope, the point of tangency of any short-period average cost curve and the envelope will be above the lowest point (optimum capacity) of the short-period average cost curve.<sup>29</sup> Thus, when the envelope is sloping downward, the plant selected will have unutilized capacity if average revenue and average cost are equated.

Any public-utility commission, which would attempt long-period control of costs through control of plant capacity, would usually be undertaking work commonly reserved to management. Difficulties might be encountered in estimating prospective increases or decreases in demand, and a corollary difficulty would be incurred in determining the allowance for excess capacity at the time of each alteration in plant and equipment. Too, there may be insufficient cost data to permit more than an approximation of the long-period and short-period average cost curves. Yet installation of unnecessarily large, small (as where monopolistic pricing prevails or has prevailed), or inefficient equipment warrants a commission's consideration of these aspects of cost control. Although a regulatory body ought to give some attention to the cost characteristics of alternative choices of plant and equipment when major changes in plant capacity are being made, it probably should continue to give principal attention to the short-period nature of costs.

<sup>26</sup> These short-period average cost curves taken at a point of time, which is the same as assuming no technological changes, represent chiefly economies or diseconomies of larger and larger scales of output. Thus the envelope under these circumstances—the customary use of the term and the use employed here—is "long-period" only in the sense of possible future increases or decreases in demand. But the envelope could also be "long-period" with respect to prospective or assumed future cost changes resulting from new techniques or other sources. Cf. E. F. M. Durbin, "A Note on Mr. Lerner's 'Dynamical' Propositions," *Econ. Jour.*, v. 47, 1937, pp. 577-81, n. 1.

<sup>27</sup> A long-period average cost curve rather than a short-period one may be used in Figure 1. When a monopolist is able to select the scale of output over a period of years or when he begins production, the price or prices at which profits would be maximized may not be the same as the price or prices for profit maximization based on the short-period costs of an existing plant.

<sup>28</sup> This is not Mrs. Robinson's (*op. cit.*, pp. 92-101) full equilibrium condition where marginal cost equals marginal revenue and average cost equals average revenue, a "double" condition which is restricted to a situation where average cost and average revenue curves are tangential. Because this notion is based on "entry of new firms" as a means of reducing profits to "normal," it does not seem applicable to price regulation of public utilities.

<sup>29</sup> It may be well to recall why the envelope must be drawn tangent to the short-period average cost curves rather than through their minimum points. The output  $x$  at the point of lowest average cost of any given plant A (except at the minimum point of a U-shaped envelope) may be produced at a lower average cost by some plant B, the short-period average cost curve of which is tangent to the envelope at output  $x$ . Cf. Harrod, *op. cit.*, pp. 450-1.

Whenever a regulatory body does conclude that a company's rates ought to be reduced because more than a fair return is being earned, the problem of distribution of the gross-revenue decrease between consumer classes is encountered. The decision may be an equal reduction per unit of service, some other arbitrary division of the reduction between buyer groups, or complete allocation of the reduction in revenue to one of the classes. The first alternative, a flat per unit reduction, does not question the prevailing bases of price discrimination. Small gas and electric consumers might claim most or all of an ordered reduction, because they may point to the advantage taken of their demand characteristics by a company which is maximizing its profits through price discrimination. It is for commissions and courts to decide what is socially and economically the most desirable means of distributing a reduction in company revenue.

The cost of serving each of the several consumer classes might provide an arbitrary measure of class prices (and some commissions profess use of it); but the costs cannot be determined unless a large probable error is permitted.<sup>30</sup> Sometimes in the electric business, where plant capacity may be varied, it is argued that prices should be fixed for electric lighting on the basis of cost of operating a plant just large enough to serve this use. To be consistent, proponents of this idea should measure industrial rates on a like basis. This procedure, because of technological economies of large-scale plants, would obviously result in higher rates than utility men desire to charge for customers with more elastic demand; and, as observed in section III, even under price discrimination technological improvements may result in reduced prices for customers with less elastic demand. Wherever such information is available, this basis of cost determination might be of some evidential worth in the making of commission-ordered revisions in rate schedules.

Because no acceptable cost data are available, another arbitrary rule for distributing a reduction in revenue and profits may be mentioned. The need for price regulation of utilities tends to vary with elasticity of demand of customers. Since regulation is not as necessary for control of prices for sharply competitive industrial power and industrial or house-heating gas business as for the uses with less elastic demand, one may be inclined to the conclusion, therefore, that the latter users deserve most or all of a prescribed decrease of revenue. Conformance to this policy would result in more nearly uniform rates. But this procedure may be no more satisfactory as a precise measure than the cost-of-service basis, because there are gradations in elas-

<sup>30</sup> Unutilized off-peak capacity exists because all classes of customers do not purchase service steadily in point of time. Consequently, the excess of total revenue over total variable cost of off-peak sales may not be used to reduce the rates of any single class regardless of demand characteristics. Division of this excess on basis of responsibility for unused off-peak capacity probably would be an acceptable, but arbitrary, rate-control rule.

ticity of demand among the public utility classes of gas and electricity buyers and because these elasticities cannot be easily or accurately measured.

A sample of commission and court cases reveals varied treatment of the problem of which class or classes of customers should receive ordered revenue reductions. And many of these cases, of course, have nebulous conclusions in terms of "undue" and "unfair" discrimination. Nor is much to be gained from examination of the equally enigmatic "zone of reasonableness" as defined by a limit of "confiscation" and "unreasonableness." There have been, for example, denials of lower light rates for lighting a store compared to a home,<sup>31</sup> for lower gas space-heating rates for commercial buildings than for residences,<sup>32</sup> and of low water rates for industries.<sup>33</sup> Some commissions as in Massachusetts, may decide that establishment of a rate structure "... falls largely within the field of management ... unless the competitive rates are such as impose a burden upon customers ... under the non-competitive rates. ..."<sup>34</sup> At least one commission has decided that the cost of gas "... must be placed more nearly on a competitive basis ... to create demand for gas cooking, ... house-heating, and industrial purposes so that the future stability of the industry may be assured."<sup>35</sup> Many commissions, despite the questionable character of cost allocations, conclude that rates for each class of customers ought to be established in accord with cost of service.<sup>36</sup> Or it may be judged that "power or industrial sales are made ... usually for the purpose of equalizing the 'load,'"<sup>37</sup> as the *Arkansas Tribunal* observed. In prescribing "reasonable" rate structures the California Railroad Commission has considered all of these factors: "cost of service studies, the history of the present rates, ... rate structures of other utilities, the equities ... between ... classes of consumers, the ability of consumers to pay [and] the availability and cost of power from other sources."<sup>38</sup> With this imposing list of factors the California Commission would surely make an arbitrary distribution of a revenue reduction.

Although the division of excess revenue above a fair return may be made according to each commission's judgment, changes in quantity of sales resulting from distribution of a commission-ordered decrease in total revenue

<sup>31</sup> *Warsaw v. Warsaw Gas and Electric Co.* (N.Y.), P.U.R. 1920 E 618.

<sup>32</sup> *Levy v. Atlanta Gas Light Co.* (Ga.), P.U.R. 1931 C 24.

<sup>33</sup> *Re Leadville Water Co.* (Colo.), P.U.R. 1931 D 366.

<sup>34</sup> *Re Customers of Edison Electric Illuminating Co. of Boston*, 5 P.U.R. (N.S.) 369 (1934). See also: *Consumers Light and Power Co. v. Phipps*, 120 (Okla.) 223, P.U.R. 1927 C 216; *Maplewood Laundry Co. v. St. Louis County Water Co.* (Mo.), P.U.R. 1929 E 129.

<sup>35</sup> *Re Public Service Electric & Gas Co.* (N.J.), P.U.R. 1929 E 17.

<sup>36</sup> *Re New York Telephone Co.* (N.Y.), P.U.R. 1928 D 254; *Re Laclede Gas Light Co.* (Mo.), P.U.R. 1929 A 561; *Re Public Service Co. of Colorado*, P.U.R. 1929 D 342.

<sup>37</sup> *Stuttgart v. Arkansas Power and Light Co.*, 5 P.U.R. (N.S.) 161 (1934).

<sup>38</sup> *California Farm Bureau Federation v. San Joaquin Light & Power Co.*, P.U.R. 1932 D 310.

may be noted. Unless the entire rate reduction is given to a class of customers with perfectly inelastic demand, there will be an increased output from ordered rate reductions. The less the rate reduction granted consumers with less elastic demand and the greater the reduction granted buyers with more elastic demand, the larger will be the increase of sales resulting from these rate reductions. Obviously rate decreases assigned solely to electric-lighting or gas-cooking consumers will restrict expansion of plant capacity in the respective public-utility industries. To repeat, a commission must decide whether it is socially most desirable to give lower rates on competitive uses where demand is more elastic and thus increase sales more than would be the case if customers with less elastic demand receive the reductions.

### V

In summary, gas and electric utilities charge higher rates to the customers with the least elastic demand, a policy which bespeaks monopolistic pricing because a monopolist to maximize net revenue may price discriminately in accord with demand elasticity of each customer or customer group. Whether or not there is unused capacity, off-peak capacity excepted, additional business with highest marginal revenue is desired. Company defense of these price differences usually runs in terms of wider spreading of fixed costs, concomitant differences in costs of rendering service, and economies of large-scale output—arguments which are either not completely acceptable or not easily provable. Prevailing infrequency and ambiguities of the legal requisites of commission investigations obstruct periodic equation of total cost and total revenue; and, consequently, there are opportunities to obtain more than a fair return. Not only are commission criteria of price discrimination numerous and vague; but in the absence of desirable cost data there are usually only arbitrary bases or empirical data for use in making downward revisions of rate schedules. With the market for gas and electricity expanding into more competitive uses, price discrimination may increase unless it is controlled by more alert and intelligent regulation.

C. EMERY TROXEL

*Wayne University*

## THE BANK FOR INTERNATIONAL SETTLEMENTS IN RECENT YEARS

Few theorists have recognized the actual importance of the Bank for International Settlements for a number of reasons. The Bank has lost some of its early functions and has not yet developed some of its more important potentialities. In spite of the difficulties leading to the cessation of most of its international debt work, it has carried on continuously, making a profit and expanding its research. Its most important accomplishments, however, have been in the field of conferences between financial and banking leaders who have come to the meetings in Basle. This work has not been recognized, since by the nature of the case, the deliberations have been confidential. Many important discussions have occurred and problems affecting the entire economic well-being of Europe have been canvassed. The Bank has trained an expert staff and has developed non-political traditions which place it strategically where it may assist in stabilizing and rationalizing political and economic tendencies in order to make possible a larger element of coöperation between nations.

### I

#### *Theories regarding the Bank*

Few economic theorists or writers on international trade during the past few years have considered that the Bank for International Settlements merited discussion. They have made brief and cursory mention of its existence, but have not assumed that it could alter important relationships or change the manner in which powerful forces work on money and trade.

The major cause for the relative lack of interest in a new and important institution is that students of theory have been looking for some more effective agency or principle which will permit a new order in international finance. They have recognized that the Bank can make little or no change in the barter terms of trade. In urging the comparative weakness of the Bank, they are overlooking the fact that its indirect influence in respect to these major problems is great. It can perform useful, though minor, functions in international finance even now. Moreover, when international banking theory catches up with ideas on national banking and international trade, two areas of thought in which change has been extremely rapid, the Bank will be found in the vanguard of constructive thinking.

A second reason for the lack of concern in the Bank is the disappointment over the inconspicuous performance of an institution expected by some to achieve great things. The plan for the International Bank had been widely heralded and its resources and potentialities had been greatly exaggerated in most of the early descriptions. For this reason there has been an unjustifiable reaction of opinion against the Bank.

A third reason for the present judgments which gives a false impression of the situation is that in the time of dramatic change and frequent economic crises in which the Bank has developed, there has been little incentive to take account of the less conspicuous accomplishments in relating more closely the smaller central banks to each other, or the research work in Basle.

It was apparent that three major functions were expected of the Bank, first, to act as a trustee, and reparation agent; second, to further central bank coöperation; and third, to serve as an effective international clearing house for the transfer of credit. The first of these expected functions has, for the most part, disappeared because of unforeseen circumstances; the third has never developed very far; the second clearly remains the most important and enduring rôle of the new institution. Its main contributions have been in the field of conference, study, education, and communication.

When the known facts are examined, it is evident that the Bank will almost certainly occupy a neutral rôle in the adjustment of exchange values. Perhaps later the theorists will decide that a new type of triangular exchange relationship is possible through the agency of the Bank.<sup>1</sup> In any case, as will be indicated below, it will take up the slack, lessen the friction, and smooth the minor fluctuations in the case of the smaller money markets for which it renders service. Its business, however, will be confined to small-scale operations in clearing, gold transfers, lending, and holding funds in custody. Its main service will be, for many years to come, research and education.

## II

### *The Financial Setting*

The economic and financial setting in which the Bank is functioning has changed so much in the last eight years that the first plans and expectations are scarcely applicable at any important point. In the spring of 1930 the doors were opened for business, and the new venture began in an atmosphere of hope and constructive coöperation. Since that time the world has been subjected to one of the severest depressions of recent times, to political upsets of the first magnitude, and to radical changes in the theory of monetary policy and international trade. The following paragraphs indicate seven different ways in which the conditions were less favorable for expansion of activity than had been anticipated.

As stated above, most of the major conditions affecting its work have been profoundly altered. For instance, it was set up by the Young Plan in 1929 to facilitate a large reparation loan, and the payment of reparation annuities by a number of countries. These arrangements were practically nullified after the Lausanne conference of 1932.

Both the ownership of shares in the Bank and the operations of the Bank "for its own account" were restricted to countries that satisfied the "practical requirements of the gold or gold exchange standard."<sup>2</sup> The B.I.S. had been at work only a year and a half when the Bank of England

<sup>1</sup> Eleanor Lansing Dulles, *The Bank for International Settlements at Work* (New York, 1932), pp. 257 and 282.

<sup>2</sup> *The Statutes*, ch. ii, art. 7, and ch. iii, art. 21. Any country directly interested in reparation payments was, also, allowed to buy shares of the Bank.

suspended gold payments. In a relatively short period all the other central banks with which there were dealings abandoned gold. Its efforts to stabilize currencies and extend the scope of the gold standard were thus rendered futile for several years.

There was, moreover, a clear mandate to expand foreign trade and aid in the development of enterprise in backward regions. Before it was able to consider any possible help it might render in this realm, whether direct or indirect, trade between countries came to a virtual standstill. Nationalisms of a narrow and mercantilist type had strangled all but the most vital efforts in this field.

The optimism with regard to price and exchange stability which prevailed at the time of the Young conference is reflected in a number of phrases in the *Report*: "We envisage the possibility of a financial institution that should be prepared to promote the increase of world trade . . . for opening up new fields of commerce . . . a stabilizing factor in the foreign exchanges . . . a link in the coöperation of central banking institutions generally—a coöperation . . . essential to the continuing stability of the world's credit structure."<sup>8</sup> There is a suggestion running through the document that prosperity would continue for some time and that there was a fairly wide acceptance of the idea of mutual advantage through expanding trade. The statutes written several months later outlined less ambitious functions for the Bank; and very soon thereafter disturbing events led to bitter disappointment and brought a general reversal of policy in international economics.

The representatives of some of the newer central banks had thought they could use the B.I.S. as a super-central bank and counter somewhat the powerful leadership of the Bank of England. London, while sceptical of the accomplishments of the B.I.S. in the money markets, was willing to use it as a training school for central bankers from the smaller countries. A number of nations hoped for loans and stabilization aid; but with the contraction of credit this became extremely difficult. Theorists expected their doctrines of control or expansion to be carried out through this institution, while politicians hoped for new ways to old ends. It was inevitable that many should be disappointed.

Other signs of hopes that the Bank would stimulate and guide commerce—hopes not justified by actual circumstances—can be seen in the discussion of the inflationary possibility of B.I.S. operations. Some of the early comment was unrealistic, but some of the suggestions might have materialized if the gold exchange standard had not collapsed.

Since the Bank had no traditions and no past, it was often assumed that it could develop new theories and economic analysis more rapidly than other institutions. In point of fact, it was unable to cut loose from existing opin-

<sup>8</sup> See paragraphs 43, 55, and 71.

ions. It was close to practical problems and recognized the difficulties in eliminating the anomalies and irrationalities of geographic and time differences in money.

The current of economic change has all been flowing against the Bank. Some of its potential functions have been rendered completely impossible. The result is seen in a modest and inconspicuous achievement. Nevertheless, it is certainly a force to be reckoned with in the future when the tide reverses itself and new opportunity and new resources emerge.

### III

#### *A Conservative Policy*

For the most part, those who had the practical task of administering the Bank understood the seriousness of the depression, and knew that the near future held no large prospects of spectacular deeds. They recognized the existing balance of power between central banks and took care not to increase the confusion or uncertainty by attempting aggressive action. In their working rules they went beyond the Young Plan and the Baden-Baden Statutes in eliminating the possibility of inflation. They refused deposits from private banks. They avoided competition with the recognized gold markets. They refrained from any direct influence on interest and discount rates. They deliberately chose slow growth as contrasted with bold action in new fields.

There was, in fact, no call for large clearing operations with international trade shrinking rapidly.<sup>4</sup> The smaller countries could not support this new institution as extensively as they would have liked, since they were themselves in distressed economic circumstances. The possibility of making a powerful and independent agency out of the Bank probably existed only in the minds of a few persons. Drastic occurrences in 1931 and 1932 made such developments impossible. Many factors, such as those cited, worked together to prevent a large concentration of funds and influence.

The reason for the caution of the managers and directors is easy to understand. They were entering new territory with no experience to guide them. They had few financial resources, no personnel trained for these problems, no political backing, and no government to support them. Even the League of Nations, a near neighbor and comparable to the B.I.S. in some of its aims and characteristics, tended to look askance on the venture. Linked to reparation payments in its origin, the new institution had to combat suspicion and hostility in some quarters.

The directors took into account such facts as the threat of war, the violent changes in the value of money, and the location of the Bank, which con-

<sup>4</sup> Dulles, *op. cit.*, pp. 229, 280-285, 246-289.

stituted a handicap in a number of respects. For instance, if the Bank had been placed in a center closer to London, or more on the beaten path, it would have been easier to attract and hold leaders in the world of international finance. While it is true that many of the outstanding figures in contemporary economic life have attended the monthly directors' meetings of the Bank, it has been difficult to retain leaders on the regular staff. There have been, of course, notable exceptions to this general condition; and to this fact the Bank owes its effective operation so far. It has been in spite of and not because of its position that good work has been done in many instances; for although Basle is not far removed in miles from important financial centers, it is in a very real sense isolated and set apart from the main current of affairs.

A number of the important self-imposed limits can be noted here. For one thing, the Bank declined to facilitate central bank credits which would be inflationary. It did not enter actively into gold transactions and only after some little time bought small amounts for its own account.<sup>5</sup> It refrained from setting an interest rate which could be publicly understood as an expression of policy. It deliberately stayed out of political questions and had as little as possible to do with representatives of governments. After the first year or so, it published only brief statements at rare intervals.

There is a danger that a review of these negative factors may give a false impression of the real nature of the Bank. Some persons assume that this institution could do more than the most powerful central banks, that it could perform functions properly carried on by commercial banks, that it could take over some of the work of the League of Nations, and that it could speak with the authority and weight of governments. Measured by these standards, the position of the Bank is weak indeed, but looked at from a more rational angle, the accomplishments have been considerable.

The Bank has passed through several difficult phases of development. During the organization year, 1930, it brought together a competent and diversified staff. Many of the persons in its employ had worked in international investment in connection with the "stabilization loans," in rehabilitation work, with the League of Nations, or with central banks. The selection and training of these persons was in itself an accomplishment; and the smooth functioning of the organization from the start is a tribute to those responsible for first developments.

The second phase was made dramatic by the emergency service of the Bank in the period of acute crisis in 1931. Tension in political and financial affairs became constantly more acute after the announcement of the *Anschluss* agreement between Germany and Austria in March, 1931, and after

<sup>5</sup> There was, of course, no special motive for the Bank to buy gold for its own account. It could not use it as a base for credit and would, therefore, lose interest on the amount of gold held. Moreover, it did not want to contribute to fears of a gold shortage.

the financial collapse precipitated by the failure of *Kredit Anstalt* in May, 1931. The Bank was able to bring together representatives of a number of central banks and get the participation of these banks and the federal reserve banks in loans to Austria, Hungary, and Germany. In so doing, they performed an important service which might very well have changed the subsequent course of events if other conditions had been more favorable. Unfortunately, political differences elsewhere lessened the beneficial effects of this action. In the dark days that followed, culminating in the suspension of the gold standard in England in September, the Bank continued to encourage and advise the smaller central banks as well as the larger financial centers. It lessened the chaos and relieved the tension somewhat, although it could not materially alter financial conditions. The informational and advisory work which it carried on at this time greatly enhanced its prestige in Europe, although comparatively little was known of it in this country.

The third period in the Bank's development, beginning after the British suspension of the gold standard, has been relatively uneventful. There has been progress, but the accomplishments have not been spectacular. A considerable part of its effort has been devoted to research and an attempt to raise the standard of central banking policy at certain points where it fell far below the general average.

It is sometimes assumed that the Lausanne treaty (not ratified) affected the situation of the Bank. It actually made little difference in the financial situation and minor changes in the functions, although as a final episode in a series of events it had some significance. A few tasks assigned to the Bank in the Conference are indicated below:<sup>6</sup>

The Lausanne Agreements proceeded to describe four special tasks for the Bank. First, the arrangements with respect to the former annuities to be carried out by the Bank during the transition period between the cessation of the application of The Hague Agreements and the coming into force of the Lausanne treaty. . . . In the second place, the Bank was to enter into mutual arrangements with the German Government for any necessary adaptation of the machinery relating to the manner in which the obligations of the German Government with respect to the German External Loan 1924 and with respect to the German International 5½ per cent Loan of 1930 will be discharged. . . . In the third place, the Bank was invited to nominate two persons to participate in the work of the Preparatory Commission of the World Economic and Financial Conference which the Lausanne Agreement decided to convene with a view to taking "the measures necessary to solve the other economic and financial difficulties which are responsible for and may prolong the present world crisis." . . . Finally, by Article 1 of the Agreement with Germany, the Powers provided for the delivery by the German Government to the Bank for International Settlements of 5 per cent redeemable bonds to the amount of 3 milliard Reichsmarks gold, to be negotiated by the Bank for International Settlements if and when possible after three years from the signature of the Agreement. . . .

<sup>6</sup> Bank for International Settlements, *Third Annual Report, 1933* (Basle, 1933), p. 20.

During all these years the Bank has continued to carry on active operations in a number of markets. Though its resources at the present time are less than they were before 1932, they are still greater than those of some of its member banks. It has maintained a reasonable degree of liquidity, avoided serious losses, increased coöperation between various institutions, and gradually freed itself from the stigma which came from its early connection with reparation payments.

In the next few years, if no major political event occurs, the banking operations will probably be of minor importance; but the monetary and economic department will further develop its valuable work. Neither the cessation of reparation payments nor the drastic deflation of recent years has affected its ability to serve the central banks.

#### IV

##### *The Financial Position of the Bank*

The high point shown on the balance sheet for the year 1931 is in some measure a reflection of the volume of financial activity in that year. From then on the assets and liabilities have declined, not, as some have assumed, because of the Lausanne treaty, nor yet on account of the devaluation of the Swiss franc. These two events have exerted only an indirect effect on the value of assets. The decline has been caused by the world depression and the contraction of foreign trade and international investment. The suspension of the gold standard in England and the devaluation of the dollar had prolonged and far-reaching effects on the B.I.S. and all its member banks.

Although the figures published in the regular monthly and annual statements do not give a clear indication of the scope and variety of activity, they show certain aspects of the Bank's functions and the extent to which it is maintaining its position after the earlier declines. The total assets were:

*(Swiss francs at par)*

September 30, 1930	1,700,419,572.01
March 31, 1931	1,901,148,912.91
March 31, 1932	1,126,011,156.84
March 31, 1933	940,575,032.12
March 31, 1934	667,525,919.98
March 31, 1935	659,828,798.20
March 31, 1936	660,783,255.26
March 31, 1937	618,842,202.24
December 31, 1937	650,026,328.81

The present level of its activities is determined in part by the existence of certain fixed deposits and also by small deposits left with the B.I.S. by the participating banks to insure the continuance of useful functions.

The Bank publishes a fairly detailed statement of the assets and liabilities

every month. Although the investments are held in different money markets and therefore in many different national currencies, the statement is presented in Swiss francs at par, that is, the equivalent of 0.290,322,58 grams of fine gold. Some of the investments which run nominally for short periods are actually renewed regularly, and are not, therefore, to be considered as liquid from all points of view. Sample balance sheets for 1933 and 1937, slightly condensed and with figures rounded to the nearest million are shown below.

Situation as at March 31, 1933 and December 31, 1937  
(In millions of Swiss gold francs—units of 0.290,322,58 . . . grams fine gold)  
(Art. 5 of the Statutes)

<i>Assets</i>			<i>Liabilities</i>		
	March 31, 1933	Dec. 31, 1937		March 31, 1933	Dec. 31, 1937
I. Gold in bars	—	13.8	I. Capital	125.0	125.0
II. Cash			II. Reserves	9.4	23.2
On hand and on current account with banks	11.4	52.3	III. Long-term commitments		
III. Sight funds at interest	52.5	17.2	1. Annuity trust account deposits	153.6	153.5
IV. Rediscountable bills and acceptances			2. German Government deposit	76.8	76.8
1. Commercial bills and bankers' acceptances	275.2	122.1	3. French Government deposit (Saar)	—	1.0
2. Treasury bills	257.5	110.6	4. French Government guarantee fund	68.5	31.6
V. Time funds at interest	185.7	38.4	IV. Short-term and sight deposits (various currencies)		
VI. Sundry bills and investments			1. Central banks for their own account	451.7	178.9
1. Maturing within 3 months	85.2	113.4	2. Central banks for account of others	13.3	2.3
2. Between 3 and 6 months	58.8	92.3	3. Other depositors	6.6	6.3
3. Over 6 months	6.5	88.9	V. Sight deposits (gold)	—	8.4
VII. Other assets	7.9	1.1	VI. Miscellaneous	21.5	43.0
	940.6	650.0	VII. Surplus	14.1	—
				940.6	650.0

An examination of the assets and liabilities at the present time indicates that a little more than 35 per cent of its liabilities are on a short-term basis and that the bills and investments are for the most part designated as maturing in less than six months. Slightly more than 13 million "Swiss gold francs" or about 2 per cent of the assets were held in "gold in bars" in December as compared with 45 million in March at the end of the fiscal year 1937. Considerable sums are probably held now, as earlier, in custody for the account of central banks. This ear-marked gold is not included in the monthly statements. The total arose from the equivalent of 268 million

Swiss gold francs on March 31, 1936, to 358 million on June 30, and 433 million on March 31, 1937. Approximately 14 per cent of the investments are "over 6 months," including a few loans that are probably difficult to liquidate such as advances to banks in distress in the early period.

The first three headings under the liabilities—capital, reserves, and long-term commitments—constitute, now, more than 60 per cent of the Bank's obligations. The large proportion in these categories indicates that the funds are to a considerable extent available because of special conditions. The "long-term commitments" remain with the Bank because of arrangements made at the time of the Young Plan settlement and include the French government guarantee fund. Slightly more than 200 million "Swiss gold francs" are central bank funds, deposited with the Bank to take advantage of its special services and facilities or to indicate a desire to participate in the work of the Bank.

As indicated above, the devaluation of the Swiss franc did not directly affect the value of the Bank's assets. The 1937 *Report*<sup>1</sup> discusses the manner in which the balance sheet for the end of the fiscal year was arrived at:

At 31st March, 1936, the calculation was made on the basis of the official selling price applied to gold by the Bank of France in Paris, our assets and commitments in the various currencies having been previously converted into French francs on the basis of the exchange rates quoted on the respective markets on the last day of the month. At 31st March, 1937, on the other hand, the official selling price for gold in New York was taken as the basis for calculating the value of the gold units of 0.29 grams in which the Bank's situation is presented, while the exchange rates applied to our assets and commitments in foreign currencies were the rates quoted against dollars on the respective markets.

It is apparent that the device adopted by the Bank and specified in its statutes has served all practical purposes in a time when devaluation has been frequent and widespread in occurrence. The unit adopted for the periodic reports is similar in some ways to that advocated by the late M. Quesnay and referred to as the *grammor*. It differs from M. Quesnay's original idea in several important respects. According to his scheme, a Bank making a deposit with the B.I.S. would get immediately a credit in *grammors* based on the gold value of the assets turned over to the Bank. It could then receive back funds in terms of the *grammors*, gaining or losing in the original currency of deposit according to its then value in gold. It was intended also that, ultimately, checks on the B.I.S. in *grammors* would be given out. The procedure adopted at Basle was less novel, and called for two types of accounting, one which showed the values of assets and liabilities in many currencies, and one which reduced them on paper to a common basis in a fixed quantity of gold.

The strain on the Bank because of these adjustments to currency changes

<sup>1</sup> *Seventh Annual Report* (Basle, 1937), p. 99.

was considerable, but the financial statements show that the transition was successfully accomplished. The exchange differences were small because "the few exchange positions which were not completely balanced reflected only current operations of a nominal character."<sup>8</sup>

## V

### *The Future of the Bank*

The future of the Bank is not likely to duplicate the past in all significant respects. As one examines the duties performed in the first eight years, it becomes evident that some will be continued and others are not likely to be important in the future. Moreover, it is highly probable that new functions will be added whenever there is a marked recovery in international trade and finance. A group of tasks assigned to the Bank in the first instance because of the need for an agency to facilitate reparation payments falls under the heading of trustee and agency functions. The annuity payments of Germany, Hungary, Bulgaria, and Czechoslovakia are no longer being paid, but the Bank has taken action to "reserve" these payments. Similarly, funds for servicing the German external loans of 1924 and 1930 are now being received by the Bank. The Austrian loan of 1930, however, is being received and distributed by the Bank. Other agency functions are being carried on, including services in connection with money and credit in the Saar.

It is clear, on the basis of these statements with regard to these responsibilities which appear in the regular reports, that the Bank is a suitable and efficient institution for carrying on this kind of work, but that the volume of such business is likely to constitute a relatively small element in the Bank's operations now that the demand for such work has diminished.

Another group of activities can be considered under the heading of general financial business. Most of the work of the Bank that falls under this heading is likely to expand in a period favorable to international exchange of goods and investments. It is reasonable to suppose that the purchase of bills and acceptances will increase at some future date if the central banks who participate in the B.I.S. experience more stable conditions. The investment of long-term funds is not likely to grow as much as the short-term transactions even in a time of economic expansion. Policy would always set fairly narrow limits to this type of business.

The Bank has made considerable effort to develop medium-term credit in order to make funds available on terms which coincide with interests of different kinds of exporters and importers. It has specialized, within the limits of available funds, in seasonal exchange credits where the risk is relatively small and the advantage to the borrower may be considerable. It has done much to add prestige to loans of various lengths not having the

<sup>8</sup> *Seventh Annual Report* (Basle, 1937), p. 101.

same tradition as the ordinary 30-day, 90-day credits. It is thought by some that this type of service can be important in breaking down limiting customs which may cease to have significance in the commerce of the present day.<sup>9</sup>

The gold transactions of the Bank will in all likelihood increase at any time when the volume of international lending increases. The Bank can furnish gold on terms which are legally and economically advantageous and which can conceal the identity of the banks concerned. The clearing facilities which the Bank had hoped to offer may perhaps develop at a later date. So far, their assistance in this direction has taken many forms but has not affected any considerable volume of funds.

The research of the B.I.S. is, in fact, close to policy formation among its member banks. This part of its efforts is developing steadily from year to year. The regular and occasional reports all indicate a free and frank approach to difficult problems that is a credit to the best scholarly tradition. There is a willingness to acknowledge the inconclusiveness of many facts and arguments, which is a proper basis for an appeal for coöperation to the solution of problems of mutual interest.

The Bank cannot fight for advantage in any transaction or policy. Its membership is such that it has to watch the interests of the buyer and the seller of exchange, the lender, and the borrower. Its work, therefore, is not that of bargaining for position, but the more difficult task of seeking improvements in method which will benefit all parties.

The part played by the Bank at the London Conference is indicative of its probable future influence in international economics. Certain resolutions were drawn up in Basle and discussed in the Conference. They formed a central part of the report finally issued. A brief outline of the problems and conclusions of this meeting is to be found in the *Fourth Annual Report*<sup>10</sup> of the Bank.

... Whereas the Conference made no headway on the monetary problems before it relating to the immediate, or at least temporary, stabilization of the principal currencies, nevertheless it led to two major steps in the monetary sphere. In the first place, the events which occurred during the proceedings brought about three formal declarations of contemporaneous monetary policy, not only of historic importance, but so vital for an understanding of the year's currency developments that they will be given below; they were, the June declarations by President Roosevelt of the then monetary policy of the United States; the pronouncement made by the "gold bloc" at the time of its creation in July, which led to the prompt conclusion of collaborative technical arrangements between the central banks of the countries concerned with a view to making effective the common policies of their respective governments; and the declaration also made in July by the nations of the British Commonwealth, which necessarily carries with it implications for the rest of the sterling area. Secondly, in the matter of fixing some of the

<sup>9</sup> Considerable attention has been turned in recent writings to a method of enhancing stability long advocated in Basle—the extension of facilities for dealing in exchange futures.

<sup>10</sup> Bank for International Settlements, *Fourth Annual Report*, 1934 (Basle, 1934), p. 9.

framework of a long-range monetary policy for the world in general after the immediate difficulties shall have been surmounted, the subcommittee of the Conference on permanent measures achieved a considerable measure of progress by reporting five resolutions which the Conference adopted.

The first of these resolutions called for currency stability as rapidly as possible in the interest of all concerned. The second declared that gold should be reestablished as the international measure of exchange values. The third dealt with measures for economizing gold and securing its maximum utility. It recommended, therefore, against the internal circulation of gold coins or gold certificates, stating that the primary object of gold in the monetary system was to meet international payments. With the same view to economy of gold, and greater elasticity in its use, the resolution urged that the minimum ratio of gold coverage should be altered from the habitual one-third to not more than 25 per cent. The fourth resolution advanced a step beyond the methods for economizing gold, to ways of improving the operation of the gold standard itself by concerted action. . . .

The report presented was a clear statement of the importance of a well-regulated gold standard to international trade. The management has indicated frequently that controls would have to be devised to prevent one-sided drains, pyramiding of credits, sudden panics, and flights of capital. It has given close attention to the ways of making funds more readily available as need arises, and has urged that its effectiveness depends on an understanding of the general desirability of balance and equalization of many price relationships. If a more constructive gold standard policy is invoked, some institution like the Bank free from political control is essential. It is necessary to watch the entire line of defense and see when weakness and disproportions develop at unexpected points. Quite properly a major part of the Bank's efforts has been devoted to preparation for quick action whenever a return to freer exchange conditions and a modified gold standard seems possible. Meanwhile it is both a strength and a weakness of the situation that central banks generally have been brought closer to the treasuries of their respective countries. It means that participating directors speak for their governments almost as much as they do for their banks, but at the same time it makes it more important to have a freer medium of expression such as the B.I.S. provides. The Bank in Basle can sometimes issue statements and take positions that no one of the participating central banks would dare assume.

The clearest indication of the essential importance of the Bank is the continued interest on the part of the heads of the main European central banks.<sup>11</sup> For the past eight years the Bank has been a regular meeting place

<sup>11</sup> Leon Fraser, "The International Bank and Its Future," *Foreign Affairs*, April, 1936, vol. 14, no. 3, p. 459, "Although the machinery of collaboration was far from being fully developed, the monthly meetings of the governors, involving frank discussion of their individual as well as common problems, formed an important point of departure; so that when the fiftieth session was held it was not surprising to observe that more than half of the governors had never missed a single meeting and that the few lapses of the remainder were accounted for by absence from Europe."

for leaders in international finance. Montagu Norman, for instance, has missed comparatively few meetings. Governor Franck of Belgium has almost always attended the regular sessions of the directors. Premier Van Zeeland attended when he was Minister of Finance. The heads of the central banks of France, Germany, and Italy have almost always been present. Men whose time is extremely valuable, and who have a multitude of pressing financial matters to attend to, have considered it worth while to make the trip to Basle frequently to exchange their views and to keep abreast of current developments. For the first few years more than half the governors had never missed a single meeting. In these gatherings they have dealt with current policy and business of the B.I.S., and they have also discussed general economic conditions and the capital markets, the future of monetary policy, and similar subjects. The opportunity to raise important questions related to central bank policy, or even larger issues, has been of immense importance. Without commitment or embarrassment, it has been possible to explore delicate and uncertain matters and on the basis of these conversations to prevent open disagreement or premature proposals.

The constant and direct contacts between the B.I.S. and its member banks, daily and even hourly in some cases, place it in a strategic position to collect and interpret these facts. It is virtually free of political interference and not obliged to publish its findings. Facts, compiled in a confidential manner, with most of the material handled in the central banking tradition, constitute a rich storehouse of information on policy and action.

In the effort to arrive at a few conclusions about the future rôle of the Bank, some consideration of the importance of personnel is necessary. The fate of the Bank lay from the outset in the hands of a small group of men. They have been criticized from time to time, but the justification of their work lies in the continued existence of the Bank.

In two directions danger lay. If the first directors and managers had been led astray by fantastic hopes, they would have been swept along with the last flurry of inflation before the final collapse. If they had accepted private deposits, they would have been racked by the rapid contraction that coincided with the first years of operation; if they had attempted an aggressive policy in respect to gold or international credit at a time when central banks were drawing apart, there would have been no harmony in Basle. The fact that gold bloc countries, sterling exchange countries, and those with "blocked" currencies, for example, marks, and lira, could act together in minor matters through the Bank may have helped to lessen the strain as rigidities and restrictions increased.

The other type of danger has been no less real and is one from which the Bank has not entirely escaped. By assuming a modest rôle, restricting publicity, issuing few statements, and not trying to elicit wide recognition and support, it has lost some of the impetus and attention which might have

served as a basis for more energetic coöperation. The Bank has been able to hold a number of able men, but it has also lost many who might have been attracted by a more ambitious program. The men who developed the working rules in the beginning were extremely varied in temperament and point of view. The combination was a happy one, though their ability to arrive at a mutually acceptable program might well have been questioned in advance.

In recent years the Bank has suffered severe losses in personnel. The sudden and tragic death of Pierre Quesnay in the summer of 1937 deprived the Bank of a man who was probably its most brilliant and skillful official, a true internationalist without a trace of geographic bias. His wealth of ideas and flexible, quick understanding of intricate problems had made him one of the most valuable members of the group. It was also an important factor in the accomplishment of concerted action involving many central banks that a Frenchman with experience in post-war international loans, in rehabilitation work, and in the arrangement of stabilization loans should have participated in the work of the "Reparation Bank" with full and friendly spirit.<sup>12</sup>

Among other notable losses from the staff of the Bank are Mr. McGarrah, the first president, and Mr. Fraser, the second president. The fact, alluded to above, that they were both Americans and were both well aware of developments in America and Europe was of real importance in making possible a degree of coöperation with the federal reserve. Their able guidance prevented the over-extension in dangerous directions of the Bank's activities as well as false hopes of American participation, unlikely in the first few years.

It is impossible to mention the nature of the contributions of all the leaders in the Bank's affairs. Such men as the recent president, Dr. Trip; the president, Dr. Beyen; Sir Charles Addis; Signor Beneduce; Dr. Huelse; Dr. Per Jacobsson, and many others have worked together loyally and with real devotion to the common ends.

The financial and moral support received so far would be greatly enhanced if the United States should change its attitude and be willing to take part more extensively in the activities of the Bank. If it does not, perhaps the Bank will retain its mainly European characteristics and will not expand to other geographic areas. Mr. Fraser urges the importance of a recognition in this country of the advantages of joining in this new and constructive venture. He discusses the matter in the article cited above:

As the United States has an immediate interest . . . in the aim of currency

<sup>12</sup> Since this article was written, an announcement has been made in Basle that Mr. Roger Auboin, French financial expert, has been named director general of the Bank of International Settlements to succeed Pierre Quesnay. Mr. Auboin was formerly public counsellor of the Bank of Rumania. At present he is secretary-general of the French National Economic Committee.

stabilization to which the Bank is committed, our advantage would be served, without any curtailment of our independence, if the American monetary authorities were to occupy the two seats reserved for them on the Board of Directors, the non-political character of which has been proved and which will have an increasing opportunity for usefulness as time unfolds. "The conception is sound; the need is real."

Some of those qualified to speak on the experience of the Bank have shown a realization of the importance of facilities for the exchange of funds under various arrangements. In fact, many persons think that if the Bank were eliminated, something to take its place would spring up very soon. Efforts at central bank coöperation had been made many times before 1929, and they will continue to be important. A statement in the *Midland Bank Review*<sup>13</sup> sums up an opinion held in many quarters as to the importance of rehabilitation monetary reconstruction:

It is becoming more and more widely recognized that if and when an international standard is restored, whether based on gold or not, it can prove lasting only if full provision is made for avoiding, by deliberate, coöordinated management, wide and rapid fluctuations in the price level. For the fulfilment of this condition, as indicated in the imperial declaration on monetary policy, for example, coöperation between central banks and other monetary authorities must necessarily be forthcoming on a regular constitutional basis, and the B.I.S. is the only existing machinery for achieving that result.

The Bank has been an observer in many instances and an active participant in others. Time alone can tell when and along what lines its evident potentialities will be developed. It can rarely act alone, but as an agent and as a means of binding together other agents in concerted action it has many large tasks ahead.

ELEANOR LANSING DULLES

*Washington, D.C.*

<sup>13</sup> *Midland Bank Monthly Review*, Nov.-Dec., 1933 (London, England), p. 1.

## ECONOMIC SIGNIFICANCE OF THE UNDISTRIBUTED PROFITS TAX

Fiscal purpose of the tax not in dispute. Arguments against it have to do with economic effects of the tax and appear to be preoccupied with incidental effects. More fundamental economic effects, which have largely been ignored, deserve careful consideration. Economic effects of "business savings" under pure competition contrasted with such effects under monopolistic conditions. Undistributed profits fail to stabilize dividends. Under monopolistic conditions, particularly, undistributed profits tend to destroy the free market for commercial funds and to cause the existence of an uncontrolled "invisible banking system." Investment of undivided profits in plant and equipment under monopolistic conditions tends to destroy the free long-term capital market and to produce maladjustment. The undistributed profits tax applied to large corporations promotes rather than impedes the efficient operation of democratic capitalism.

The purpose of the undistributed profits tax is to prevent receivers of large incomes from minimizing the amount of their income tax through the use of the corporation, and to discourage the corporate practice of withholding dividends and thereby minimizing the taxable personal incomes of owners of common stock. The attacks that have been made on this tax, which has been described as "the tax without a friend," concern in the main the economic effects of the tax rather than its purpose. It appears to be generally recognized that the purpose of the undistributed profits tax is clear and unequivocal, and that this purpose is appropriately within the bounds of purely fiscal considerations.<sup>1</sup> This does not mean, of course, that its economic effects should be regarded as altogether irrelevant. It is quite proper, once the purpose of a tax is clearly accepted as a fiscal one, for both opponents and advocates of a tax to attack or defend it on the basis of its economic effects. A tax that has not both harmful and helpful effects is practically inconceivable, and consequently the problem in every case is a consideration of the relative importance of these effects.

Contemporary discussion of the undistributed profits tax appears to be preoccupied with incidental effects due to the impact of the tax and to neglect almost entirely certain fundamental effects that, from the viewpoint of the proper functioning of the capitalistic system, are more important than the incidental effects. These fundamental effects are important because modern industries are frequently conducted, not by innumerable small competing firms, but by a few large corporations. In other words, conditions of oligopoly prevail in industries that are dominated by one or a few corporations. Where oligopolistic or monopolistic conditions exist, it is necessary to realize that competitive forces do not operate in the same manner as they do under conditions of pure competition.<sup>2</sup>

<sup>1</sup> Prominent authorities on public finance maintain that the purpose of all taxes should be purely fiscal. Some of our federal taxes, notably tariffs, are levied not for fiscal purposes but for the attainment of their economic effects. Cf. H. L. Lutz, *Public Finance*, 3rd ed. (1936), pp. 371-375.

<sup>2</sup> Where a large number of small firms compete in the manufacturing or marketing of goods and services.

Under pure competition the over-expansion of one or a few firms does not lead to a continuing general over-expansion and unbalance in the whole industry. If a large number of small firms in one industry over-expands, the resulting increase in output will induce a decline in market price that subsequently will cause readjustment of plant capacity to competitive market demands. Meanwhile, under competitive conditions, the "excessive" plant capacity will largely continue in use, and consumers will benefit by enhanced production at low prices. Thus competitive conditions impel the most efficient use of the existing capacity and the minimum amount of unemployment consistent with existing market prices and variable costs. Owing to the lower price for the product and the relatively higher variable costs, however, with the accompanying restriction on credit available to the industry, further expansion will be checked until the excessive plant capacity has been worn out or until the market has grown up to it. During the period of necessary readjustment many firms in the industry will, of course, be operating "at a loss" on their investment but with sufficient revenue to cover variable costs.

When, on the other hand, conditions of monopoly or oligopoly prevail in an industry, the automatic check to continued over-expansion does not operate. When excess capacity is created by monopolistic or oligopolistic firms, the readjustment described in the preceding paragraph is prevented from occurring. Instead of utilizing the excess capacity and producing an enlarged output at "unprofitable" prices, the monopolist or oligopolist will find it to his own advantage to restrict his production to whatever extent may be necessary to maximize his net returns over variable costs. In the absence of competitive pressure, reflected in a shifting demand for his own product, the monopolist or oligopolist may continue permanently to operate with excess plant capacity.<sup>3</sup>

Accordingly, when small enterprisers, whether or not they are organized as corporations, plow back their earnings into their business, there is no danger of permanent overcapacity, even though there may be initial over-expansion in some cases resulting from over-optimistic re-investment of earnings. Under competition, however, this malallocation of resources cannot long continue. Readjustment, of course, is costly but there may be some justification

<sup>3</sup> The monopolist or oligopolist finds himself faced with a negatively sloped demand curve and, consequently, a negatively sloped marginal revenue curve. In other words, by restricting output he will obtain a higher per unit price. His optimum output is that where marginal revenue equals marginal cost (equivalent to marginal variable cost). The optimum output of the competitive firm is likewise that output where marginal revenue equals marginal cost, but demand appears to the competitive firm as a horizontal line (the same price for whatever output he may produce) and hence marginal revenue to him is simply market price over which he has no control. The competitive firm will not receive a higher price if he restricts his output. Cf. E. Chamberlin, *The Theory of Monopolistic Competition*, 2nd ed. (1936), pp. 11-54; and A. M. McIsaac and J. G. Smith, *Introduction to Economic Analysis*, 1937, pp. 115-162.

for allowing small business-men, by plowing back earnings, to act as pioneers in developing new undertakings that would appear to be too speculative for the support of conservative bankers and investors.

On the other hand, when large corporations operating under conditions of oligopoly or monopoly plow back their earnings on a large scale, there is real danger of permanent overcapacity. And, where the economic system is largely dominated by oligopolistic or monopolistic corporations, there is danger of general over-expansion and general "oversaving." The problem of unbalance that may thus occur in industrial plant and equipment is aggravated by corollary effects upon the monetary and banking system.

In fact, as a result of the prevalence of monopoly or oligopoly, the conditions that are likely to prevail and have prevailed in the past, when large corporations have extensively withheld the earnings of stockholders, tend to result in the breakdown of the balanced operation of the economic system under competitive capitalism. In addition, the conditions that tend to prevail under these circumstances constitute a destructive interference with the sovereign power of the government to regulate the currency and with the ability of the federal reserve system to enforce necessary quantitative and qualitative control over the credit system. Both of these matters are important whether the corporation uses the undistributed profits "to strengthen its cash position" or to invest in expansion of its plant and equipment; but the interference with control by the banking system is more evident if the undistributed profits are used to strengthen the cash position, and the tendency to prevent the balanced operation of the economic system is more evident if the undistributed profits are used for investment in plant and equipment.

#### *Effects of Using Undistributed Profits to Strengthen Cash Position*

When large corporations use undistributed profits to increase their cash holdings, in the form of bank deposits or liquid securities, they in effect are appropriating earnings that belong to stockholders in such a manner as to free the corporation of the discipline of the competitive short-term credit market. They free themselves from the discipline of the banking system. They can then expand their inventories and their productive activities, not on the basis of the impartial judgment of the competitive credit market, but solely in accordance with their own judgment as to profit possibilities. It would be only a matter of coincidence if their judgment as to the wisdom of the increased output were in agreement with the impartial judgment of the free competitive short-term capital market.

Under the modern system of competitive capitalism, short-term credit is supposed to be rationed to the various competing lines of production according to the judgment "of the market" as to the prospective profits. This judgment of the market materializes through the complex and highly efficient

operation of various credit agencies, including particularly the credit departments of the commercial banks. When large corporations are permitted to so strengthen their cash position as to become virtually independent of the banking system for their short-term working capital requirements, there is created virtually an "invisible banking system" that can defy the disciplinary influence of the commercial banks and of the federal reserve system. In this connection the episode of brokers' loans for account of others leading to the collapse of the securities market in 1929 may well be remembered.

#### *Effects of Using Undistributed Profits to "Stabilize" Dividends*

If corporations use undistributed profits to invest in a portfolio of securities so that dividends to common stock may be stabilized, the results in effect are the setting up of investment trusts operating in a manner just the opposite from that which would be considered sound investment policy. The corporation would then be appropriating the stockholders' earnings during prosperous times and investing them in securities at high prices and selling them subsequently, in order to continue to pay dividends, during times when security prices were low. Moreover, the officers of a business corporation are appropriately experts in the business in which they are engaged (producing goods) and they are likely to be inexpert in the art of security investment. In any case, by virtue of the circumstances, even an expert investment manager would be faced with the necessity of buying heavily when security prices were high and selling heavily when security prices were low in order to synchronize his purchases and sales with the growth and shrinkage of the fund.

A more serious effect of the use by large corporations of undistributed profits to invest in security portfolios is that it creates an artificial market for securities. The accumulation of these funds by large corporations stimulates rising security prices in boom periods, making it easier for other corporations to expand their capital financing than would otherwise be the case. During the subsequent period of decline, the drop in security prices is accentuated by the selling of these security portfolios in order to maintain dividend payments, making it more difficult than otherwise would be the case for other corporations to engage in capital financing.

Under the system of competitive capitalism, the distribution of long-term credit to the various demands must operate through the free capital market that is institutionally represented by the investment banking system and the open market for securities. This important function, which theoretically maintains balance in the system, is thrown into chaotic confusion if large corporations enjoying monopolistic or oligopolistic positions are permitted to create artificial conditions in the securities markets in the manner described above. Such a situation did in fact prevail during the years preceding the 1929 crash.

From the viewpoint of the appropriate functions of the various types of security holders, it is open to question in any case whether or not the common stockholders should have their dividends stabilized. Certainly they should not be stabilized at the expense of the bondholders' interests or at the expense of the stability of the economic system as a whole. In an economic system operating under dynamic conditions, with free enterprise and freedom of choice by consumers, the function of risk bearing must be performed by someone. If the common stockholders do not perform the function, who will? As the system operates, according to the theories so vigorously upheld by business-men themselves, the function of risk bearing is appropriately that of the owners of common stocks. Regardless of any attempt to "stabilize," the risks will remain; for the future cannot be accurately predicted unless the choices of enterprisers and consumers are dictated rather than free. In any case, the creation of a condition of maladjustment in the distribution of capital investment merely introduces an additional risk element, an additional factor leading toward instability of earnings on common stock.

*Effects of Using Undistributed Profits to Invest in  
Expansion of Plant and Equipment*

The use by large corporations enjoying monopolistic or oligopolistic marketing conditions of their undistributed profits for expansion of plant and equipment has the effect of liberating them from the discipline of the free long-term capital market. In other words, theirs is the sole judgment as to whether or not the present and prospective conditions of the market warrant the expansion. When they can appropriate the common stockholders' earnings for expansion, they need not submit their plans for expansion to the impartial judgment of the free capital market. It seems hardly necessary to point out to business-men (since they have long preached the doctrine themselves) that there must be a free capital market so that competitive forces will operate to maintain balance in the rate of expansion of the various types of production.

The officers of a corporation are undoubtedly the best judges as to the technical matters involved in problems of expansion of their particular industry, but they and their sales departments are likely to be over-optimistic in good times as to the future earning possibilities. In any case, the question of future prospects should be subjected to the test of the free capital market to be compared with the prospects of the other lines of production competing for the uses of capital. To the extent that there is, under capitalism, any "economic planning" toward the attainment of balance in the economic system, it is through this operation of the free capital market. The judgment of the corporation must be supported, accordingly, by the judgment of the market before expansion should be undertaken. Otherwise, over-expansion

will occur in some lines, the system of production and distribution will be thrown out of balance, excess capacity and unemployment will prevail with the accompanying social loss, and eventually the earnings of the holders of common stock may be far lower than otherwise would be the case.

### *Conclusion*

These considerations appear to be far more important than the various points that are currently being made by the opponents of the undistributed profits tax. If the tax prevents saving by small corporations, it might be appropriate to exempt them from the tax. So far as the argument contained in this article is concerned, small corporations could be exempted from the tax without harmful effects. For large corporations, either because of existing conditions of monopoly or oligopoly or because of threatened conditions of that character, the tax should be retained in our fiscal system. In its economic effects the tax favors, rather than hinders, the proper functioning of the capitalistic system. Consequently, the tax that has been recently described as one without a friend has one very important though perhaps inarticulate friend—namely, modern democratic capitalism.

JAMES G. SMITH

*Princeton University*

## COMMUNICATIONS

### Professor Graham on Partial Reserve Money

My attention has just been called to Professor F. D. Graham's article on "Partial Reserve Money and the 100 Per Cent Proposal," published in the *American Economic Review*, September, 1936. In that article, on page 432, Professor Graham refers to my pamphlet entitled *How to Understand Money* (Farrar and Rinehart, 1935). He says, "Professor Haney . . . seems to think that he has justified the issue of currency by private banks when he asserts that bank deposit currency is not money."

This statement is erroneous. In the first place, I am not interested in "justifying" anything. Professor Graham's thought is full of "oughts," "rights," "wrongs," etc., which no doubt explain his error in attributing ethical notions to me. In the second place, I do not think that I have justified anything merely by adopting certain definitions. Professor Graham can say no more than that it seems to him to be so. In the third place, I did say, and would repeat with emphasis, that it is expedient, as conducive to straight (non-circular) thinking, to defend the concept of "money" as being different in scope from the concept of "currency."

The reason is indicated in my pamphlet. I treat "currency" as being any medium of exchange. "Money," however, is treated as being only that part of the media of exchange which can circulate freely and be used to measure objective value in exchanges which involve the lapse of time. I know of no way to get such characteristics except by using some standard object which has objective value.

Credit instruments, such as bank checks, do not circulate freely, as anyone who has tried to cash one in a strange city knows. Moreover, their value depends upon (1) the money—in the above mentioned sense of the term—in which they will be paid, as well as upon (2) the honesty and solvency of drawer and drawee (the bank).

In this connection, Professor Graham did not heed my definition, while he himself proceeds to beg the whole question at issue by calling government credit "cash," and bank deposits "money."

He proceeds to say: "Professor Haney, moreover, appears to think that banks cannot even create 'currency' since, as he says, banks cannot lend their deposits." To do him justice, he admits that others "appear" as I do in this matter, but he implies that the rest of us are trying to fool the people by means of an ambiguous use of the term, "deposits."

Then he himself proceeds to make the cardinal error that vitiates most of the current wish-thinking about so-called money. He fails to understand the relation between "deposits" and "loans." (Incidentally, he conveniently saves himself from logical exposure at one point by implying that time deposits and demand deposits are much the same thing.) The crowning piece of confusion appears in the following statement: ". . . and they [banks] can, in addition, lend new liabilities [deposits] created for, and in the act of, making a loan."

I take it that he here refers to a derivative "demand-deposit" liability, which balances a "loan" asset on the bank's books. If this be the case, I ask, what remains for the bank to lend? Surely, the talk about the deposit being a "new" one makes no difference. It is still a liability, balanced by the loan.

On page 429, Professor Graham says of another writer that he "refuses to

discuss the general merit of divorcing the supply of circulating medium from the lending process, and of making it impossible for commercial banks to relend several times over the sums deposited with them . . ." This statement well reveals Professor Graham's approach. It implies that (1) the banks can and do relend deposits over and over again; therefore, (2) bank deposits (money, as he calls it) should be "divorced" from loans!

One fundamental objection to all this is that there is no limit other than the will of "the sovereign," as Professor Graham calls him. My thought, like that of experienced commercial bankers, is that derivative deposits get their validity from loans which are made for the purpose of directing existing capital into productive uses. The goodness of deposit currency, in the last analysis, rests upon the goodness of the use of the factors of production by individual borrowers.

Passing over Professor Graham's grave citation of President John Adams as an authority on money and banking, may I refer to one more statement which shows why he disagrees so violently with the position taken in my *How to Understand Money*. On page 430, he says: "Fiduciary money, unlike real wealth, cannot with social advantage be indefinitely increased in volume." I would ask what real wealth can be increased indefinitely without ceasing to be wealth? My position is that the only way to know what social value is, is through freely determined objective values; and that the only way to measure such values, and to secure the advantages of exchange and credit, is by using as "money" a convenient object that itself has objective value. One great advantage in using gold as a standard substance is that it is "real wealth," but that it cannot be *indefinitely increased in volume*!

This is a rejoinder, not a review. I cannot close, however, without noting that Professor Graham's thought is vitiated throughout by sweeping postulates or premises:

(1) He assumes that social planning by governmental agencies is an advantage. (He treats seigniorage as a tax, and taxation as the sovereign's power to destroy.)

(2) He thinks on the level of the Casselian simultaneous equations, in that he continually speaks of *total* money supply as if it were to be exchanged for the *total* of all goods!

(3) He fails to recognize the technological aspects of monetary functions, and lacks understanding of how money serves as the tool of credit.

LEWIS H. HANEY

*New York University*

### A Note on "A Break in Keynes's Theory of Interest"

The object of Professor Landauer, in his article in the June, 1937, *Review*, is to demonstrate that Keynes's effort to establish the rate of interest as an independent monetary phenomenon is unsuccessful. The kernel of his criticism is the alleged incompatibility between "liquidity preference," as used by Keynes, and the declining efficiency of capital. His proof of this incompatibility is fatally defective because he declines to be bound by the postulates of the system he seeks to test. The incompatibility he finds is that which exists between Keynes's concept of liquidity preference and the traditional concept of the efficiency of capital, which happens not to be Keynes's. It does not in any way affect the logic of Keynes's argument.

## I

Keynes regards the diminishing efficiency of capital as the decreasing adaptability of capital to employ the available units of labor as output increases. (*General Theory*, p. 42.) This may be a novel and startling proposition, for apparently it requires that labor be considered as an overhead cost, but it does not appear to be incompatible with Keynes's definition of the marginal efficiency of capital. Unless it is defective because incompatible with that underlying definition—and Professor Landauer does not raise the issue—this proposition must be accepted by anyone who seeks to test the internal consistency of Keynes's theory. Professor Landauer, however, rejects the notion that it may be labor in relation to which capital is abundant (p. 262), and substitutes for it the view that capital goods are scarce or abundant only in comparison with consumer's goods. From this point onward his argument is necessarily irrelevant to the validity of Keynes's logic.

It must be noted that in making the above substitution Professor Landauer palpably begs the question. For he states that if it is held that the rate of interest must adjust itself to the changing marginal efficiency of capital—which he defines on the basis of the relative scarcity of capital and consumption goods—then "it will be seen that in this light the interest rate is the equilibrating factor between investment and consumption, and not a mere compensation of liquidity preference" (p. 262).

## II

The basis upon which Professor Landauer thus rejects labor (which Keynes explicitly names) as the factor in comparison with which capital is scarce or abundant, involves another play upon words. By using the term "capital" to denote both capital funds and capital equipment, he is able to say that because an abundance of capital funds is favorable to increased employment, therefore an abundance of capital equipment cannot decrease employment. His assumption that capital funds are equivalent to capital equipment is, of course, based on the traditional identification of saving and investment, which is one of the major points put in issue by Keynes. Thus we are again confronted with a question-begging argument that avoids any test of Keynes's logic.

## III

Professor Landauer next discusses competition for "resources" between investment and consumption (pp. 264-5), with apparently no appreciation that such competition can obtain only in the special case of full employment and not in the general case with which Keynes's argument is concerned. His conclusion, that unemployment must be frictional only, is inherent in his underlying assumption that full employment prevails. Once more he argues in a circle and fails to touch Keynes's reasoning.

In this connection, his use of the term, "resources," implies failure to understand that in Keynes's theory investment and consumption are "fed" only by the flow of income, which is augmented by increased consumption quite as readily as by increased investment. The obverse of this fundamental proposition of Keynes's theory is that income is currently determined by prospective investment and consumption. Saving that is withheld from investment must in effect disappear through the consequent shrinkage of income. It is the dynamics of this adjustment that is neglected by Landauer's traditional assumption of identity between capital funds and capital equipment.

Professor Landauer's criticism of Keynes proceeds upon the assumption that investment is made from past accumulation. He ignores not only the significance of the place, time, and rate of hoarding, but also the depressing effect that hoarding has on prospective consumption and thus on the incentive to dishoard. For his conclusion, that hoarding has no real effect upon economic behavior, he claims to find support in the quantity theory of money. It is not pertinent here to examine this claim; it is sufficient to point out that Keynes's restatement of the quantity theory (*General Theory*, pp. 295 ff.) in no wise supports such a view. Professor Landauer's assertion that Keynes, through his adherence to "the" quantity theory, must subscribe to such a conclusion is quite unjustified. Keynes's formulation of the quantity theory is consistent with his argument that hoarding, by reducing income, reduces the marginal efficiency of capital and thus cumulatively accentuates its initial deflationary effect.

#### IV

Professor Landauer is apparently unable to free himself from the postulates of traditional doctrine and to examine Keynes's theory on the basis of its own assumptions, which is necessary, of course, if the mutual compatibility of its concepts is to be examined and its internal consistency tested. Only thus can we explain (1) his inability to understand how Keynes relates the efficiency of capital to the available supply of labor; (2) his implicit identification of saving and investment without appreciation of the dynamics which Keynes adduces to explain their necessary equality; and (3) his failure to understand that according to Keynes's theory an increase of consumption expenditure, except in the case of full employment, promotes rather than diminishes capital outlay. It is submitted that the errors analyzed above vitiate his entire argument and leave unscathed Keynes's concept of liquidity preference and theory of interest.

RODERICK H. RILEY

*Madison, Wisconsin*

#### Reply by Mr. Landauer

I want to concentrate on the most important points in Mr. Riley's objections. Therefore I shall not discuss his opinion that in interpreting Keynes I have been thinking in terms of physical rather than value productivity of capital, which would have been a very grave mistake indeed; I am rather confident that the reader, when he reexamines the original text of my article, will realize that I am not guilty of this mistake. Similarly, when Mr. Riley blames me for circular reasoning, I shall leave the reader to form his own judgment. Finally, Mr. Riley's objection that I fail "to understand that in Keynes's theory investment and consumption are 'fed' only by the flow of income, which is augmented by increased consumption quite as readily as by increased investment" is based on a misunderstanding of terms rather than on an important difference of opinion between us and may be left out from this attempt to clarify our respective positions. The important points of difference, it seems to me, are these:

1. Mr. Riley thinks that Keynes considers the diminishing efficiency of capital as identical with, or as caused by, "the decreasing adaptability of capital to employ the available units of labor as output increases," or expressed in simpler terms, to an abundance or decreasing scarcity of capital in relation to labor. Abundance of capital in relation to labor means shortage of labor in relation to

capital. But how can the existence of such a shortage be reconciled with Keynes's idea that unemployment is a regular phenomenon? Mr. Riley's interpretation implies, it seems to me, a much more obvious inconsistency in Keynes's system than does any of my arguments.

In the passage which Mr. Riley quotes from the *General Theory* (p. 42) Keynes does not speak of scarcity of labor in general, but only of a situation in which "there is no surplus of specialized or practised labor." In such a situation, if "the use of less suitable labor involves a higher labor cost per unit of output, . . . the rate at which the return from the equipment diminishes as the employment increases is more rapid than it would be if there were such a surplus."

This is an incontestable statement. But if any considerable unemployment exists, even "suitable" labor will be relatively abundant, or can easily be made so by schooling. If scarcity of well trained labor were the main reason for the decline of capital efficiency per unit, this scarcity would be automatically remedied, as soon as that decline produced unemployment, which would be inevitable, according to the Keynes theory; the bottle-neck in the labor supply might cause temporary difficulties but never an under-employment equilibrium. If for any reason the process of widening the bottle-neck should not occur automatically, then we should have to believe in vocational training and re-training rather than in creditary policies as a remedy for the evils attributed to the declining marginal efficiency of capital by Keynes, and this would certainly not conform with Keynes's opinion. Consequently, it is impossible to explain the decrease of the marginal efficiency of capital by a shortage of specialized labor and at the same time accept Keynes's principal line of reasoning. Moreover, while it may sometimes be true that an additional amount of capital investment in, let us say, automobile factories is somewhat less profitable than preceding doses because workers with inferior training must be employed if the plant is expanded, I think it would be highly unrealistic to hold this fact mainly responsible for cyclical and chronic unemployment. The passage on p. 42 is cautiously worded and by no means forces us to read into Keynes's book the assumption that a shortage of labor, in any sense, is a principal cause of the decline of the marginal efficiency of capital. If I had adopted that interpretation of Keynes's theory which Mr. Riley blames me for not adopting, I feel I should have violated the first rule of constructive criticism which says that a critic should always interpret the author's statements in the sense which shows the least amount of inconsistency and error.

2. I am not at all sure that Keynes himself would emphasize the distinction between capital funds and capital equipment in the same way as Mr. Riley does it, since Mr. Riley's discussion of this point comes very close to a distinction between the quantities of aggregate saving and aggregate investment, and Keynes rejects this distinction most definitely. (Confer *General Theory*, pp. 52-85, and Keynes's article in the *Economic Journal*, issue of June, 1937.) But I agree with Mr. Riley that, whatever Keynes himself may have said, the logic of his system calls for the assumption that not all capital funds are under all circumstances turned into capital equipment. However, the marginal efficiency of capital is determined by those funds which are turned into capital equipment, and the reason why the marginal efficiency of capital funds declines is, in Keynes's opinion as in reality, the fact that the marginal efficiency of capital equipment declines as its quantity increases (see p. 42). In order to stay within the framework of Keynes's system we have to assume that the abundance of capital funds may be greater than the abundance of capital equipment, but this is no reason to deny that

there will be no great use for more capital funds if there is no great use for more capital equipment.

3. Mr. Riley objects to my proposition that Keynes's own formulation of the quantity theory of money is not consistent with his liquidity-preference theory of interest. In my opinion Keynes does not deny the principle of the quantity theory, which, as expressed in broadest terms, says that the sum total of prices adjusts itself to a varying quantity of money. Keynes stresses the point that part of this adjustment is being made by changes in output, so that a smaller or larger number of goods will enter the market, depending on the smaller or larger amount of money; this seems to me the only important feature which distinguishes his presentation from the traditional formula of the quantity theory. Naturally, if the quantity of goods grows, the price of the individual piece need not grow so much to adjust the sum total of prices to an increased quantity of money.

Let us set aside for a moment the question of what bearing the peculiarity of Keynes's formula has on the problem of the rate of interest, and let us concentrate on the more general question as to whether the effects of the quantity of money on output can be permanent. Certainly, the absolute quantity of money as such cannot have any important meaning; we can never say that any rise of output or any structure of production or any relation of prices will be possible with  $2x$  of money in circulation which would not be possible with  $x$ . This follows from the obvious impossibility of defining any quantity of money in absolute terms. A sum of one dollar or of a billion dollars has no meaning if not defined in terms of goods or, what is ultimately the same, in terms of national income. Since the abstract term dollar or pound has no meaning, nothing can depend on the fact, as such, that we have a certain quantity of dollar coins or dollar notes in circulation. No economist, with the possible exception of the most doctrinaire metallists, has ever expressed any other opinion, and I am sure Mr. Riley will agree with me that Keynes, just like everybody else, considers the above statement a commonplace.

But while Keynes would certainly agree that it would make no difference whether an economy at its start (so to speak) called its available quantity of money \$100.00 or \$1,000,000,000.00, he would say that changes in the quantity of money may have a long lasting effect on output. Although the choice of the original quantity is irrelevant, the increase or decrease of money has, in Keynes's opinion, some effects which may not disappear, at least not easily. If the quantity of money is diminished, men will be put out of work, and a new and less favorable employment equilibrium may be established so that they will not again be reemployed; and since output has decreased there will be no strong tendency for the money unit to gain that greater importance which the traditional quantity theory predicts in case of a decrease in the quantity of money, and therefore the unfavorable equilibrium will be more stable than it would otherwise be. I think one expresses Keynes's ideas correctly by saying that while the absolute quantity of money has no influence on output and employment, our present output and employment situation is to a large extent the result of past variations in the quantity of money.

Some passages in Keynes's theory read as though he believed that the only way to destroy the effect of a decrease in money quantity would be a subsequent increase, and *vice versa*. But does he really think that there will never be an adjustment through increased importance of the monetary unit in case of a decrease, and through decreased importance of the unit in case of an increase in the quantity of circulating money, no matter how long the time which we allow for

such an adjustment? The discussion on pages 306 and 307 of the *General Theory* is convincing proof to me that he does not go that far, and that he thinks the importance of the money unit will ultimately adjust itself to a decreased quantity of money unless an adjustment through a new change in quantity is obtained earlier, which he thinks is more likely.

Now let us return to the problem of the rate of interest and liquidity preference. Since people want to keep part of the money in circulation as a cash reserve, the quantity of money which has been printed or coined is not fully available for purchases. The situation is just the same as if a lesser amount of dollars and pounds and francs and marks had been created. Therefore, the withholding of cash itself has no influence on the structure of the economy (and the interest rate is a part of that structure). This follows from the "commonplace proposition" of the quantity theory. What may have an influence are the former increases and decreases in the tendency to withhold a part of the money from circulation. But will this influence be permanent? In view of what Keynes says on pages 306 and 307, I do not think that he could consider it permanent, without inconsistency, even if there were only increases or only decreases of liquidity preference. However, increases and decreases of liquidity preference follow each other in comparatively short waves, and necessarily cancel their respective effects. Therefore there is no room for liquidity preference as a determinant of any "structural" feature of the economy, be it the rate of interest or anything else, except for a short period of time.

While it seems to me that all the steps in this reasoning, except the very last one, remain within the logic of Keynes's system, he certainly refuses to take this very last step. In fact, in many of his passages on the rate of interest he argues as if not only changes in liquidity preference, but the degree of liquidity preference itself, would have an influence on the rate, which, for reasons that I have tried to explain, does not seem to me consistent with his fundamental opinions on money. Some of the basic assumptions are still too orthodox to warrant his unorthodox conclusions.

I grant willingly that what I said in my article about the incompatibility of Keynes's quantity theory of money with his liquidity-preference theory of interest was too short to do justice to the difficulties of the problem, and even this note is far from being an all-round discussion of it. We have every reason to be grateful to Keynes that he did not withhold his book from publication until every important detail could be presented in a completely clarified form; otherwise economic science would probably still be lacking the great stimulating effect which his book has had. But there is another side to the fact that we have been able to learn from the *General Theory* before everything in it is quite straightened out, and this is that the innate difficulties of the topic are augmented by some doubts as to the precise nature of the author's opinion on certain very important problems.

4. Mr. Riley is right in pointing out that I have not explained how competition for resources is possible in another state than that of full employment. If there are unused resources, why should different purposes compete for the same resources, why can they not use the unemployed reserves? Of course it is impossible to state one's opinion fully on this question without writing a book, but this does not detract from the logical necessity of an answer. Thus the blame which I really deserve is one of incompleteness of argument, not of begging the question. May I, without attempting to fill the gap, just try to indicate in what direction I should search for the material with which to fill it?

First of all, while there may be unused resources on which one could draw for

investment as well as consumption, the high-grade resources are generally used; in those periods when, for reasons which we cannot here endeavor to explain, product prices are low and unemployment of men and equipment equally great, there is still a scarcity of (and therefore there may be competition for) those types of equipment with which one can most cheaply produce (even when output is small) and therefore earn profits even under depression conditions. My second point I can only indicate by an example. During the World War there was unquestionable competition between the various countries for the largest number of men who could be sent to the trenches; there was also in each country competition for manpower between the army, the munitions industries, and the industries necessary to feed the people. But any observer who visited barracks or drill grounds in any of the belligerent countries found that while soldiers sometimes practised to the point of exhaustion, they spent a very large part of their time waiting for orders, for food, for equipment, or for the arrival of superiors. There was a saying among the German soldiers that futile waiting was a soldier's main job. But anybody who would have drawn the conclusion that there was no shortage of manpower, or no competition for manpower, would have been undoubtedly wrong. I submit that our present economic machinery wastes resources just as the military machinery during the war wasted manpower; but this, in my opinion, does not prove that there can be no scarcity of, or competition for, economic resources between consumption and investment.

CARL LANDAUER

*University of California*

### Rejoinder by Mr. Riley

Professor Landauer having by correspondence removed a misunderstanding on my part, neither my note nor his reply now contains reference to his statement on page 263 concerning the efficiency of capital.

1. Answering the first point of Professor Landauer's reply, I cannot agree that on page 42 Keynes is not speaking of scarcity of labor in general. His assumption of no surplus of "specialized or practised labor" seems clearly for the purpose of emphasizing the tendency that prevails under all conditions. To me, the sentence cited by Professor Landauer admits of no other interpretation than this. Further, I cannot agree that this passage is worded so as to restrict its significance; and as it is part of Keynes's development of his basic units it seems necessarily binding upon all that follows.

The fundamental significance of this brief passage of Keynes seems to have escaped Professor Landauer, else he could not say, "Abundance of capital in relation to labor means shortage of labor in relation to capital." When the norm is set, as Keynes sets it, by the labor supply, it is inadmissible to speak of relative abundance or scarcity of labor. Labor becomes the gauge and cannot itself be gauged. "Abundance of capital" means, not shortage of labor, but a high degree of mechanization or capitalistic development. This is not incompatible with full employment, provided the rate of interest falls appropriately.

2. Professor Landauer errs if he believes I agree with him that the logic of Keynes's system requires the assumption that capital funds are frequently not changed into capital equipment. In my view of Keynes's theory, funds that are not spent for capital equipment cannot be capital funds. The failure to spend them, either on equipment or on consumption goods, involves their disappearance through shrinkage of income.

3. It seems to me that in his further treatment of the quantity theory of money, Professor Landauer must justify his elimination of idle balances from the analysis. To assume that this elimination is admissible is once more to put the conclusion among the premises; the liquidity-preference theory may not be invalidated by excluding from consideration the quantitative factor which most clearly reflects liquidity preference.

4. Professor Landauer refers again to the "competition for resources between consumption and investment." I had thought it unnecessary to state that Keynes's emphasis upon structural unemployment does not exclude recognition of "frictional" unemployment or of competition, due to market and pricing imperfections, between consumption and investment prior to achievement of full employment. Keynes's discussion on pages 301-2 of the discontinuity of change in the wage-unit covers the point fully.

5. Further, I do not understand how Professor Landauer gets into a discussion of natural resources, including labor, after apparently agreeing with me that his term, "resources from which investment is fed," means current income. I disclaim, of course, any view that current investment is not affected—through current income—by existing capital equipment.

As to my view that Professor Landauer habitually puts his conclusions among his premises, I cannot agree that mere methodology is the issue. To grant that would be to grant one more conclusion at the outset. In the specific case he cites, I can only refer again to my argument that he unnecessarily and erroneously abandons Keynes's interpretation of the diminishing efficiency of capital and by substituting his own makes his conclusion inescapable.

RODERICK H. RILEY

*Madison, Wisconsin*

### Note on "Taxes and the Consumer"

In the March issue of this *Review*, in an article titled "Taxes and the Consumer," Professor Wehrwein showed in a convincing manner that taxes either are shifted to the consumer or, levied directly on him, may be shifted forward.

The substance of his argument, for our purpose, may be summarized by the following quotations:

"A laborer must have food, shelter, clothing, etc., to be able to work. He uses these necessities to a great extent for the same purpose for which a manufacturing business uses coal and other raw materials, *i.e.*, as a source of heat, energy and equipment in producing something which is to be sold. Even recreation increases a laborer's efficiency." Thus an increase in the cost of living caused by the shifting of taxes to the wage-earner, or a tax levied directly on him, may lead the wage-earner to demand and get higher wages. In addition, by means of goods and services he purchases, the wage-earner may shift some of his taxes backward. "It may be more difficult for a wage or salary-earning consumer to shift taxes than for a commercial or manufacturing business, but it is useless to claim or imply that no tax shifting has or can be done by the salary or wage-earner."

It is in the last paragraph of Professor Wehrwein's article that the present writer believes he has erred. Here he makes the following statement:

"There are many consumers who do not earn the money which they need for personal purposes. This group includes, among others, nearly all the children, and most housewives. It is only to these people that the term 'final consumer' really can be applied. Consumers of this type obviously cannot shift forward taxes

passed to or levied directly upon them because they do not sell anything of any kind, though they may be able to shift them backward."

To this writer it is not "obvious" that consumers of this type cannot shift their taxes forward. Assuming the validity of Professor Wehrwein's previous argument, it would appear that it is only logical that this type of consumer can shift his taxes as well as any other, or at least within limits. Why is it that the wage-earner can get higher wages when he must pay higher taxes, yet the housewife must purchase less? If all the housewives were taxed, say one-hundred dollars a year, it would be necessary for them to demand and to get larger allowances from their husbands, and this would encourage wage-earners to demand higher wages the same as if the tax were levied directly on them. This argument can be applied equally well to children or any dependent of a wage-earner. Likewise, any tax shifted to non-productive consumers will tend to be shifted forward.

Therefore, the only conclusion that can be reached is that there is no "final consumer" who is sure to bear a tax once it is paid by him.

J. A. LEAVITT

New York City

### Britain Is Pawned!

With reference to the criticism of *Britain Is Pawned!* appearing on page 781 of your December issue, your critic has written, "The main theme, however, is that interest, defined as 'unearned income' from 'spurious capital values' of land, monopoly, goodwill, and national debt, should be eliminated." Whereas the converse of this argument is sustained throughout the book, *viz.*, that unearned income *forms* spurious capital value by virtue of the rate of discount, *e.g.*, on p. 16, line 3, "Though this unearned income forms the basis of that spurious capital value, which is the national liability. . . ." Also p. 12, line 30, "If it is unearned it will create capital value equal to the discounted value of its future yield. . . ." For whilst all interest is unearned, not all unearned income is interest (just as we may say that whereas all English people are white, not all white people are English) and that portion which is not interest creates a capital value, by virtue of the rate of discount, which forms a reflection *called* the rate of interest. "All capital value in the form of national liability owes its existence to the fact that it represents the total discounted value of a lien upon future production, and it is the relationship between the annual income and its total discounted cash values, or capital value, which is called the rate of interest; for the owner of capital value thinks of his income as a yield of so much per cent on his capital" (p. 22, line 23).

I am stressing the importance of this point because any attempt to levy a tax upon interest derived from the ownership of capital goods would not reduce the net return to the owner; the tax would be passed on to the consumer in higher prices. Whereas any tax levied upon unearned income (other than interest on capital goods) *does* reduce the net return to the owner; the tax would not be passed on to the consumer. On the contrary, spurious capital values would be reduced by the capital value of the tax through the action of the rate of discount (p. 41).

VINCENT PANTIN

Melbourne, Australia

## REVIEWS AND NEW BOOKS

### General Works, Theory and Its History

*Studies in Income and Wealth.* By the CONFERENCE ON RESEARCH IN NATIONAL INCOME AND WEALTH. Vol. I. (New York: Nat. Bureau of Econ. Research. 1937. Pp. xviii, 348. \$2.50.)

*National Income and Capital Formation, 1919-1935: A Preliminary Report.* By SIMON KUZNETS. (New York: Nat. Bureau of Econ. Research. 1937. Pp. x, 86. \$1.50.)

The Conference on Research in National Income and Wealth comprises representatives of seven universities, nine research divisions of the federal government, and various other organizations. Its purpose has been to bring about an exchange of information among the workers in its field, to promote agreement upon the most appropriate concepts and terminologies to be used, and to stimulate research on a coöperative basis. This volume presents the results of the Conference's attempt to clarify concepts, unify terminology, and improve procedure; the statistical estimates it contains are presented mainly for the purpose of illustration, and there is little discussion of available statistical sources. As such it is not a book for the use of the average student of economics, but will be required reading for all those interested in the field which it covers.

The volume is divided into eight parts. The first contains a discussion of various national income concepts by M. A. Copeland, followed by a criticism by Simon Kuznets and Clark Warburton. The second part, by Mr. Warburton, entitled "Accounting methodology in the measurement of the national income," contains in the main several memoranda prepared in connection with the Brookings Institution study of the distribution of wealth and income. Part 3, by Solomon Fabricant, discusses corporate savings in the measurement of the national income, with stress on the effect of changing prices upon depreciation allowances and inventory valuations. Part 4, by Simon Kuznets, is closely connected with the preceding section and describes the effects of changing inventory valuations on business savings and the national income. Criticism by Dr. Copeland, Milton Friedman, and A. W. Marget follows. Part 5, by Gerhard Colm, presents a stimulating discussion of the proper treatment of government revenue and expenditure in calculating the national income. It is discussed by J. M. Clark, Simon Kuznets, and Mabel Newcomer. In part 6 Carl Shoup deals with the distinction between "gross" and "net" income for the purpose of income taxation. The subject is important because various statistical sources depend upon statements of income prepared in conformity with the income-tax law. Roy Blough and W. W. Hewett discuss Professor Shoup's contribution. Part 7 is a treatment by Solomon Kuznets of some problems connected

with measuring per capita labor income. Finally, part 8, by O. C. Stine, is devoted to the difficulties involved in determining the ratio between purchasing power of the net income per person on farms and that of the income of persons not on farms, both pre-war and present, as prescribed by the Soil Conservation act of 1936. Certain additional points are discussed by M. R. Benedict and John D. Black.

This bare summary should indicate the scope and importance of the volume; also, perhaps, the difficulty of reviewing it. There are inevitably various minor points with which the reviewer disagrees, but to present them in a short review would give an over-critical emphasis. The different contributions, also inevitably, are of different importance and merit; and the book contains no attempt to summarize the results of the discussions, undoubtedly because agreement was not reached on many points. But progress is clearly indicated: for example, it was decided to reserve the term "national income" for what Dr. Kuznets had heretofore designated "national income produced." What he had called "national income paid out" was redesignated "aggregate income payments to individuals," on the ground that it was really a subdivision of the national income and that its subordinate position should be clearly indicated in its name. In general, the entire undertaking deserves praise as an attempt, in a relatively limited field, to bring about agreement upon basic terms and definitions (without which research cannot proceed) in a manner more fruitful and less time-consuming than the usual one of controversial discussion in our various journals. The example might well be copied in other fields of economics.

*National Income and Capital Formation* combines the results of three studies made by the National Bureau: national income and capital formation, both under the direction of Dr. Kuznets, and capital consumption under the direction of Solomon Fabricant. The detailed report of the study on the national income is promised before the end of the year, and the detailed volume on capital formation is already in press. The capital consumption estimates were previously published,<sup>1</sup> but a final report, *Capital Consumption*, containing revisions is still to appear. The first section of the present volume, discussing scope and definitions, has been much influenced by the discussions contained in *Studies in National Income and Wealth*. The second section presents estimates of the gross national product and the national income (net national product) in both current and 1929 prices, as well as estimates of the national income (in 1929 prices) per capita, per gainfully occupied, and per consuming unit. The third section contains the distribution of the gross national product, the national income, and aggre-

<sup>1</sup> Bulletin 60 (June 30, 1936) of the National Bureau gives Mr. Fabricant's results through 1933.

gate income payments to individuals according to the industrial division of origin. When this distribution is made in current prices, it is found that the importance of what may be broadly called "commodity producing industries" declined and that of "service industries" increased (p. 20); but a tentative distribution according to 1929 prices indicates that the decline was the result of a fall in price rather than a fall in production (p. 23). Section 4 gives the distribution by types of income payments. Employees' compensation, entrepreneurial income payments, and property income payments go to make up aggregate income payments to individuals; and the addition of net savings of business enterprises and of government (positive or negative) gives us the national income. Net savings of business enterprises are found to have averaged only \$250 millions over the entire period. Whether or not "excess" savings are responsible for the cycle, cycles effectively get rid of savings!

The utilization of the national income is next presented. Section 6 discusses the various distinctions that can be made between consumers' outlay and capital formation; section 7 contains estimates of gross capital formation and of the apportionment of the gross national product between gross capital formation and consumers' outlay; section 8 gives estimates of net capital formation and of the apportionment of the national income between net capital formation and consumers' outlay; and, finally, section 9 describes the composition of consumers' outlay. The distinction between gross and net capital formation (and between the gross national product and the national income) is based on Mr. Fabricant's estimates of capital consumption. These estimates together with those for gross and net capital formation are broken down into estimates for business, government, and residential real estate; and consumers' outlays are divided into durable, semi-durable, and perishable commodities, plus services not embodied in commodities. The estimate for residential real-estate construction is especially interesting; there has been net depreciation (negative net capital formation) in this field every year since 1929, total depreciation amounting to \$6.5 billions by 1935. In that year the net value of real estate appears to have been little different from what it was in 1925.

The final section is devoted to a useful summary of the more significant results. Several appendices contain a reconciliation of the present estimates with those previously published by the National Bureau and the Department of Commerce, as well as more details regarding (and certain variants of) some of the present estimates. The volume has received the Bureau's usual careful preparation and, as this summary should indicate, provides the fullest estimates available in the field.

HENRY HILGARD VILLARD

*University of Minnesota*

*The Economic Library of Jacob H. Hollander.* Compiled by ELSIE A. G. MARSH. (Baltimore: Privately printed, J. H. Hollander, Johns Hopkins Univ. 1937. Pp. xi, 324.)

This handsome volume is at once a monument to a great collector and to a significant collection of economic literature and personalia. The collection consists of 4,071 items of which 3,860 are books and pamphlets, the others being portraits, autograph letters and documents.

The first impulse to the collection, Professor Hollander tells us, came from a visit to Professor Foxwell at Cambridge in the summer of 1895. This brought with it the inspiration of a view of that great scholar's own library which, a few years later, the Goldsmiths Company was to purchase as a gift to the University of London. But one suspects, since collectors are born with the collecting instinct, that the seed fell on unusually fertile soil; and certainly the library which Professor Hollander has gathered is the result of both a discriminating taste and a sound knowledge of the history of economic thought.

The actual catalogue of books is presented in chronological form for three periods. The first group (1,566 items) includes pamphlets published in what Professor Hollander in his foreword happily calls the "pre-Adamite" period, 1574-1750, as well as such significant writings as those of Mun, Child, Petty and Graunt, all in first edition. The pamphlets are keyed to Joseph Massie's *Alphabetical and Chronological Index of Commercial Books and Pamphlets*, covering 2,377 items published prior to 1765; and indeed it was the discovery of that list in 1908, which gave much direction to Professor Hollander's own efforts thereafter. The second group (1,727 items) covers the period 1751-1797 when the formal divorce of political economy from moral philosophy was given an impetus by the work of Adam Smith. It includes a well-rounded collection of editions of the *Wealth of Nations* in English and in translation. The third group begins with 1798, the year of publication of *An Essay on the Principle of Population* and brings the collection down to 1936. It includes not only a long array of Malthus items, but, as would be expected from Professor Hollander's well-known special interest, an even larger group of Ricardo's publications. It is noteworthy also that his first editions of both the *Wealth of Nations* and the *Essay on Population* came from the library of Hardenhuish Park and carry the bookplate of Osman Ricardo, the eldest son of the economist. The several works and editions of an individual author are, in each instance, grouped under the date of the first publication by that author included in the library, reference to which is carried in a finding list of authors placed at the end of the volume. So it is, for example, that the *Wealth of Nations* is found under the year 1759 when the first edition of the *Theory of Moral Sentiments* appeared and not under

1776, the year of publication. In form and in arrangement the catalogue is a model of what such a volume should be.

Professor Hollander has not confined his collecting to books alone; and here is further evidence that the true collector's instincts which, if they were not evident at the time of the first visit to Foxwell, merely lay dormant. He has gathered a notable group of portraits of economists, whose works appear in the catalogue, including an original Tassie paste medallion of Adam Smith, a great rarity. Finally there is listed an impressive collection of autograph items, almost certainly the finest in America. These include letters, twelve each of Adam Smith and Ricardo, a half-dozen of Bentham, ten of Malthus, and others of Mills, Say, McCulloch, *et al.*, and a number of letters of more recent date addressed to Professor Hollander and wisely preserved by him.

A final word should be said of the great debt which collectors and economic bibliographers owe to Professor Hollander for sharing his great knowledge of the literature of economic thought, especially the period before Adam Smith, as he has done generously and even magnificently. We can hope that other scholars, challenged as he was by Foxwell, will be inspired in the years to come to follow his footsteps in the adventure of collecting—one of the most fascinating of all intellectual pursuits.

HOMER B. VANDERBLUE

New York City

*Einführung in die Grundlagen der Nationalökonomie.* By RICHARD VON STRIGL. (Vienna: Springer. 1937. Pp. viii, 223. RM. 5.40.)

This is an introductory textbook and an excellent one as such. It is so short and clear that the beginning student will finish it in a fraction of a semester. This is no drawback from the point of view of German and Austrian university courses where textbooks are rarely required and often not even recommended.

American teachers of economics confronted with that never-ending flood of (mostly mediocre) elementary textbooks are always surprised that German literature of this type hardly exists. There are, of course, the big volumes by Philippovich, Conrad, Adolf Weber and others, all printed in smallish type, with long pages of bibliography after each section, and a host of busy footnotes throughout. No American college professor would ever dare to feed such heavy literature to his students. Were lighter writings in popular style perhaps considered below the dignity of German university professors? Among the few exceptions there were the books by Professor Röpke; and there is now the book by Professor Strigl.

The first chapter deals with "The price." How refreshingly economical, without any waste of time, to find oneself in the midst of supply and de-

mand analysis, no later than on page 2. The second chapter discusses "Conditions of returns and costs." While "marginal utility" was conspicuous by its absence from the first chapter, the second chapter is well equipped with "marginal physical returns" and "marginal cost." All this, including a section on the "law of population," takes only 42 pages. The reader is now fitted to tackle the third chapter on "The prices of factors of production," with its introduction into distribution theory and its exposition of the marginal productivity theory of wages. The fourth chapter is on "Capital" and coördinates skillfully the notion of the "roundaboutness of production" with the wage fund theory as well as with marginal-productivity theory. This coördination is familiar to the reader of Professor Strigl's monograph on *Kapital und Produktion* which he had published in 1934. The fifth chapter, entitled "Types of price formation," discusses monopoly, monopolistic competition, price fixing, price interdependence, and the problem of "fair" prices. Value and distribution are thus covered in no more space than 116 pages; and, I should add, no important tool of modern theory was overlooked in spite of the brevity of the exposition.

"Money" is the subject matter of the sixth chapter, which is with its 49 pages the longest of the book. This is not too long, since the chapter includes a discussion of credit policies, of their effects upon the capital structure, of the business cycle, and of foreign-exchange rates. The seventh chapter is called "*Preisbelastungen*," a term for which I cannot find an English equivalent. Shift of incidence of taxation, of social security and wage regulations, and of tariffs, are dealt with under this heading; and comparative cost and international trade are discussed in the context. The eighth and last chapter is devoted to "Economic policy." This is a particularly ticklish theme in a German book nowadays. In a very diplomatic way the "common good" is contrasted with the "individual interest"; it is shown that the "common good" is often merely a slogan exploited for the interest of small groups who try to obtain for themselves protection and subsidies at the expense of the rest of the community.

Professor Strigl's book is a model of brevity and clarity. It deserves fullest success.

University of Buffalo

FRITZ MACHLUP

#### NEW BOOKS

AKERMAN, J. *Das Problem der soziökonomischen Synthese*. (Lund: Gleerup. 1938. Pp. 329.)

———. *Socialekonomisk analys*. Reprinted from *Ekonomisk Tidskrift*, 1937. (Lund: Gleerup. 1937. Pp. 77-151.)

ALLEN, R. G. D. *Mathematical analysis for economists*. (London: Macmillan. 1938. Pp. xv, 548. 31s. 6d.)

AMONN, A. *Volkswirtschaftliche Grundbegriffe und Grundprobleme: Einführung in das volkswirtschaftliche Denken*. (Jena: Fischer. 1938. RM. 7.)

AMOROSO, L. *Principii di economia corporativa*. (Bologna: Zanichelli. 1938. Pp. xix, 367. L. 30.)

ATKINS, W. E. and MAGEE, J. D. *A problem approach to economics*. (New York: Harper. 1937. Pp. viii, 572. \$2.75.)

This brief, clearly-written book is another attempt to teach economics by the problem approach, which is justified by the authors on the ground of realism. Economics is treated as virtually equivalent to social science. Economic theory and philosophy, together with political assumptions, are omitted, their purpose being to present merely "the economic order of the United States in action and . . . the various problems and issues which arise from that action." The authors consider wealth and income, money-making and profit-making, the financial organization of society, credit and debt, business records, the extractive industries, agricultural industries, farm problems, transportation problems, public utilities, building and construction work, manufacturing industries, machine problems of the factory owner, problems of the worker in industry, the struggles of labor, insurance and social insurance, the problems of the consumer, pricing practices and monopoly, business and government, problems of public finance, recent monetary developments, international economic relations, the business cycle (its causes and control), and changing economic systems.

Although the problem approach is to be commended because of its "realism," a great degree of unreality may occur when philosophical and political considerations are excluded as in this volume. The authors justly complain of books of readings on the ground that elementary students cannot readily integrate the material. But to write a book without a point of view, the usual basis of integration, does not seem to solve the problem. On the whole, this volume is far too brief and lacks a vigorous attack upon current economic issues.

WILLIAM WITHERS

AYRES, C. E. *The problem of economic order*. (New York: Farrar and Rinehart. 1938. Pp. vi, 92. 60c.)

The thesis of this book is that economic theory based on the classical doctrines failed to recognize the rise of machine technology and the breakdown of free competition as fatal violations of its fundamental assumptions. The author seriously questions the concept of economic order based on such theories and concludes that the present disproportionate distribution of income and the blind piling up of capital funds, which the classical doctrines justified, may be the causes of our present plight. The suggested remedies are to change the income distribution and the accumulation of savings by governmental action aimed at increasing mass purchasing power.

The summary of the rise of machine technology is suggestive, but the author's criticism of neo-classical economics loses much of its effectiveness because of his misinterpretation of such theories and of their fundamental concepts. On pages 39-40, for instance, the author states that the "law" of the determination of price by supply and demand is a mere truism since supply means the amount of goods sold at a price, demand means the amount purchased at a price, and hence price is assumed, not explained. The concept of supply and demand schedules and the interactions of the forces lying behind them are completely overlooked. Later, on page 52, he states that "wages" are equal to the "productivity" of labor, not because of any economic actions lead-

ing toward equality, but because "wages" and "productivity" are identical terms. In his discussion of "the twilight of competition" he makes no mention of the theories of monopoly or of monopolistic competition and implies that economic theory has no validity under these conditions.

The philosophical, historical viewpoint of this book will be of interest to the economist, although the author denies the logical validity of the most useful tools of economic analysis.

FRANCIS M. BODDY

CAPODAGLIO, G. *Sommario di storia delle dottrine economiche*. (Bologna: Zanichelli. 1937. Pp. viii, 220. L. 22.)

The summary history of economic doctrines offered in this short volume represents a thorough revision and elaboration of an earlier compendium based on lectures delivered at the University of Rome. It presents an excellent simple introduction to the subject, for the beginning students in economics and for the general reader as well.

In scope, the study covers the period from the ancient Greeks to current writers. However, practically the entire book is devoted to the modern era, which is considered as beginning with the monetary writers of the sixteenth century—Malestroit, Bodin, Davanzati, and others. Economists studied are grouped into schools, and the conventional classification is used. The cultural background of the different schools is sketched with a few simple and bold strokes. Only the principal developments of economic theory are treated. The general character and significance of those developments are clearly explained, but the intricacies are not explored.

Sciences, like cathedrals, says Signor Capodaglio, are the product of generations more than of individuals. The process of development in economics has been simple and continuous. Existing theory was subjected to current criticism, and the resulting fusion of ideas threw a clearer light on life. Signor Capodaglio notes two currents in contemporary economic thought that give promise of modifying the existing body of theory. One, the "new Austrian school," attempts to elaborate the theory of marginal utility and economic equilibrium by forging new, more subtle and more perfect logical instruments. Among the leaders in this movement are Hans Mayer, F. A. Hayek, P. N. Rosenstein-Rodan, Oscar Morgenstern and Lionel Robbins. The second analyzes Italian corporate economy. Named as leaders in this current are Gino Arias, Giuseppe Bottai, Filippo Carli, Carlo E. Ferri, Ugo Spirito, Rodolfo Benini, Alberto De' Stefani, Luigi Einaudi, Marco Fanno, Giuseppe Ugo Papi, Guglielmo Masci, Riccardo Bachi and Mikail Manoilescu. No mention is made of a third current which is rapidly gathering momentum—namely, the analysis of monopolistic competition, which has developed under the stimulus of Mrs. Joan Robinson and Professor Edward Chamberlin.

DOMENICO GAGLIARDO

DOBB, M. *Political economy and capitalism: some essays in economic tradition*. (London: Routledge. 1937. Pp. viii, 360. 10s. 6d.)

It might be correct, but it would be unfair, to call Mr. Dobb a Marxist. For it is the view of American academic economists that contemporary Marxism involves either an uncritical parroting of the words of the Master, or an anxious disputation concerning the meaning of those words. Mr. Dobb avoids both.

This volume is, nevertheless, in large measure devoted to a demonstration of the superiority of Marxian economics over other types of economic theory from the time of Adam Smith to the present.

His theoretical position involves Mr. Dobb in the following: (1) A defense of the need for value theory as opposed to the alleged formalism of Cassel and the neo-Austrians; (2) a defense of the labor theory of value as against the subjective value theory; (3) a repudiation of the formalism of the Austrian and neo-Austrian theories, because this formalism assumes away the possibility of discrimination between surplus income and earned income; (4) a dissatisfaction with the failure of Marshallian economics to extend the concept of surplus value to profit and interest.

Mr. Dobb is in sympathy with those recent developments in modern economic theory which tend to erect monopoly and uncertainty into characteristic assumptions, as opposed to their former position of mere "disturbances" or "frictions." He disapproves, however, of the tendency bred of this development to restrict economic analysis to the short run.

In the long chapter on imperialism, Mr. Dobb addresses himself more directly to the historical process than he does elsewhere in the volume. He prefers the Marx-Lenin position on imperialism to that of Rosa Luxembourg. He conceives the latter's criticism of Marx to be premised on the highly inadequate under-consumption theory of crises. He points out that Marx focused his attention on the recurrent unprofitability of investment, and that he anticipated the Keynesian doctrine of liquidity preference.

In the closing chapter on "Economic law in a socialist economy," the author states that despite its recent modifications with respect to monopoly, contemporary economic theory will play a negligible rôle in a socialist economy. It cannot be otherwise with a theory which premises the allocation of resources on the autonomous decisions of entrepreneurs.

LEO ROGIN

EUCKEN, W. *Nationalökonomie—wozu?* (Leipzig: Felix Meiner. 1938. Pp. 64.)

EULENBURG, F. *Allgemeine Volkswirtschaftspolitik: Staat und Wirtschaft.* (Zurich: Verl. f. Recht u. Gesellschaft. 1938. Pp. ix, 320. RM. 17.40.)

FAY, C. R. and BAGLEY, W. C., JR. *Elements of economics.* 2nd rev. ed. (New York: Macmillan. 1938. Pp. 576. \$1.80.)

GRIZIOTTI, B. *Intorno alla scuola di Luigi Cossa in Pavia: glosse e contro glosse inedite di Maffeo Pantaleoni e Giovanni Montemartini a "Una questione di metodo nella storia delle dottrine economiche."* (Padua: Treves. 1938. Pp. 44.)

HALE, R. S. *The revolution in economics.* (London: Humphries. 1938. Pp. 192.)

JOHNSON, E. A. J. *Predecessors of Adam Smith: the growth of British economic thought.* (New York: Prentice-Hall. 1937. Pp. xii, 426. \$3.50.)

I have studied Professor Johnson's book with enjoyment and profit. It is distinguished by meticulous industry, acute thought and high ability. The expectation which his *American Economic Thought* aroused among students of doctrinal history, disturbed a little by the stodginess of his *Pioneers*, is revived and confirmed by his major performance. It is what one would wish from a student and disciple of Hull.

Pre-Smithian thought is at best a jungle. For years it was treated with sheer naiveté, in train perhaps of Adam Smith's cavalier manner. Out of scientific uneasiness, came monographic attack and specific studies of men and periods—

many thin and unsubstantial, a few like Weulersse's *Physiocrats*, Lamond's *Hales* and Hull's *Petty*, solid and definitive.

Through this tangled growth Professor Johnson with much courage and no mean competence has blazed a great deal more than a trail. It is not certain that those who come after will follow his way; assuredly they will not, if informed, neglect it.

Whatever dissent there may be is likely to be associated with one or the other—or both—of two matters. The first is the identification of each of the ten worthies selected for scrutiny with some particular type of intellectual effort. An unreal air of easy solution is thus given the tangle. For an appraisal after this manner must inevitably be subjective. The facet which seems to one critic dominant will appear quite minor to another.

The other matter is an old story—the need of continuing projection of thought against the background of life. No one will charge Professor Johnson with "text" method—the darkened-room, iced-towel, easy-armchair mode of interpretation. But I cannot but wish that he had drawn upon his rich store for a closer association of opinion and condition.

It is fine that American scholarship should make so distinguished a contribution to doctrinal history. There is abundant virtue in the book to honor its author and to warm his associates.

JACOB H. HOLLANDER

LEIGHTON, J. A. *Social philosophies in conflict*. (New York: Appleton-Century. 1937. Pp. 546. \$4.)

ROBINSON, J. *Introduction to the theory of employment*. (London: Macmillan. 1937. Pp. ix, 127. \$2.)

SCHERMAN, H. *The promises men live by: a new approach to economics*. (New York: Random House. 1938. Pp. xxvi, 492. \$3.)

SCOTT, W. R. *Adam Smith as student and professor*. (Glasgow: Jackson. 1937. Pp. xxiv, 445. 30s.)

A score of years ago the economic profession acclaimed the appearance of William Robert Scott's *Constitution and Finance of English, Scottish and Irish Joint-Stock Companies*. Not since Gross's *Gild Merchant*, or Lea's *Inquisition* or Hull's *Petty* had economic history been enriched by so satisfying a performance. To this day as one turns the leaves of the not easily procurable three volumes there comes the amazed reaction, "there can be no such animal"—in laborious research, in uncompromising scholarship, in positive result. The repute which Professor Scott had won twelve years before by his *Francis Hutcheson* was enlarged and strengthened.

Time moved on and the junior academician of St. Andrews became the Adam Smith Professor of Political Economy at the University of Glasgow. In an honored environment, stirred we may venture by scientific piety, impelled perhaps by an earlier prepossession, Scott's attention turned to the life and surroundings of Adam Smith. Dugald Stewart had left the classic outline and John Rae had added flesh and blood to dry bones. But, as the issue showed, there was much still to be done, and this gifted scholar proceeded to do it. Month after month saw gaps filled and perplexities solved. Two years ago a book was in type, satisfying to anyone—but the author. For there were yet other ponds to be dragged, and unvisited areas to be explored.

The result is the present volume—issued with stateliness and distinction as a publication of the University of Glasgow and inscribed to the Court and

Senate of the University on the two hundredth anniversary of Adam Smith's matriculation there. The book is enlarged by a body of unpublished documents, including "Parts of the 'Edinburgh Lectures', a Draft of *The Wealth of Nations*, Extracts from the Muniments of the University of Glasgow and Correspondence."

Wealth of apparatus, richness of "finds," completeness of documentation, distinguish the work from cover to cover. Professor Scott has given us not a life of Adam Smith, but *the* life. Much more than this, in supplying the company of economic students with a superb exhibit of competence and industry he has dignified scientific labor and exalted economic scholarship.

JACOB H. HOLLANDER

SHARIF, M. M. *A critique of economics*. (Simla: Fine Art Printers. 1937. Pp. 39.)

VELLA, G. F. *La funzione economico-sociale della proprietà*. (Catania: Studio Ed. Moderno. 1938. Pp. 95. L. 6.)

WOOTTON, B. *Lament for economics*. (London: Allen and Unwin. 1937. Pp. 322. 6s.)

*Annali di statistica e di economia*. Anno iv, vol. v. (Genoa: Treves. 1937. Pp. 286. L. 30.)

One half of this volume presents notes by Mauro Fasiani upon the *Economic Essays* of Francesco Fuoco; the other half, the text of Fuoco's *Application of Algebra to Political Economy*.

The work is an attempt to rescue from obscurity "one of the most vivacious, brilliant and acute Italian economists of the early years of the past century." Fuoco, a man of undistinguished origin, made his first appearance as an economist in 1822, when he published under the name of his employer De Welz a book about methods of increasing the wealth of Sicily. The next year he published a study of credit, and in 1825-27 the two volumes of his *Essays*. He was without influence on his contemporaries and was neglected by historians, yet he was the first writer to restate for his countrymen the Ricardian theory of rent, which he did in so illuminating a fashion, according to Fasiani, as fully to demonstrate the superiority of his mind over the minds of his Italian contemporaries. He made a notable effort to extend the rent concept to industrial production.

R. F. FOERSTER

*Can we control the boom?* Day and hour ser., no. 20. (Minneapolis: Univ. of Minnesota Press. 1937. Pp. 29. 25c.)

Conference held at the University of Minnesota, May 11, 1937, and participated in by Bertil Ohlin, Fritz Machlup, Arthur W. Marget, Oliver S. Powell and Alvin H. Hansen.

*Cowles Commission for Research in Economics: report for the period from 1932 to 1937*. (Colorado Springs: Cowles Commission for Res. in Econ. Pp. 23.)

### Economic History and Geography

*A History of the Business-Man*. By MIRIAM BEARD. (New York: Macmillan. 1937. Pp. vi, 779. \$5.00.)

Miss Beard has opened up a new trail from the past, beginning at Ur which "is as much older than Rome as Rome is older than New York,"

and ending in modern America. The evolution of the business-man is described in 28 chapters as he passes through the stages of patrician city-ruler, monopolist, individualist, and big business-man. There are Crassus, whose ambitions were the cause of Cicero's orations, Lorenzo di Medici, Jacques Coeur, who financed Joan of Arc's armies, the Fuggers who dared to dun Holy Roman Emperors, Fouquet, the elegant French banker whose lavish display incited jealous Louis XIV to build Versailles, the four Bicker brothers of Holland, John Law, the Rothschilds, Krupp, who is blamed for modern armament races, and many American titans of the last century. The author's theme, placed prominently on the fly-leaf, is Kurt Riesler's contention that in history "there is neither an Idea which is independent of interests in its development, nor an Interest which could have remained independent, in its materiality, of ideas." She illustrates this in a variety of ways—by showing the relation of business to cathedral rose windows, Shakespeare's *Merchant of Venice*, the Reformation, Jan Vermeer of Delft's paintings, Calvinism, the French Revolution, and of course to laissez-faire and fascism. The scope of the work is breath-taking; it is a Cook's tour of economic history.

I put down the book with the feeling that there is little that is new in the world. Dealers in munitions are said to have caused some of the wars of antiquity. Roman traders are blamed for the conquest of Gaul, long before decreasing cost industries were known. There was a trust busting movement during the Reformation in Germany. An N.R.A. was proposed in France in the 1590's. The antics of conspicuous consumption of the *nouveau riche* throughout history have been amazingly similar, a favorite topic which Miss Beard illustrates copiously.

On the whole she is not unkind to the business-man. He developed law in an age when knights preferred settlement by combat; and in Holland he originated the modern home. Miss Beard's severest criticism is her statement that there is little evidence "to prove the optimistic liberal thesis that commerce always and necessarily makes for peace and friendly relations." Rather, "war has been the business-man's major preoccupation in political history." The Dutch Republic provides her with a strong argument. A corollary quite in keeping with this is her claim that complex and flourishing business has not been built upon "the mutually profitable exchange of wars between peers. . . . On the contrary, the chief trade empires were founded upon the exploitation of some sort of monopoly, whether of skill, routes, or raw material"; and in modern times the exploitive character of business is even "more evident" (p. 655).

In the second half of the book she discusses the status of the business-man in England, France, the United States, Germany and Japan in the last centuries, and shows why he revolted in the first three (the landed aristocracy held him down in Germany and Japan), how he got his way

for a time, and why he then succumbed again to government. She believes that capitalism reached its apogee before the war. Since then businessmen have been struggling to retain their power. History shows that the best they can hope for is secret control. The easy-going Italians have adopted fascism, allegedly the line of least resistance; the English way out has been a brand of Tory socialism which owes much to Robert Owen; and the Americans are today groping for a solution which will be something else, since conditions are different here.

Miss Beard finds it hard to resist a generalization, and some of her generalizations are rather flimsy—her greatest virtue overdone is her worst vice. For example, she says it is possible that the Roman conquest of Carthage stamped the business-man with a seal of inferiority which ended for all time his chances to rule the earth (p. 29). She credits a sixteenth-century Nürnberg firm with solving England's problem of what to use to smelt iron (sea-coal) when the charcoal gave out, and ignores the eighteenth-century Abraham Darbys who were probably the first to use coke, a far more important solution of that problem (p. 220). Depending on W. R. Scott, she writes, "From the 1600's the quick sharp pains of industrial cycles and exploding 'bubbles' were felt" (p. 734). Wesley Mitchell has discussed this contention in his *Business Cycles* and shown the unlikelihood that true business cycles occurred before the Industrial Revolution. There are gratifyingly few errors of fact to be found, but there are some. Irénée Dupont (born in 1771) did not set up a gunpowder plant to help win the American Revolution (p. 460) but the War of 1812. McCormick's reaper was not invented during the Civil War but three decades before (p. 628).

DONALD L. KEMMERER

University of Illinois

*The Jacksons and the Lees: Two Generations of Massachusetts Merchants, 1765-1844.* By KENNETH WIGGINS PORTER. Vols. I and II. (Cambridge: Harvard Univ. Press. 1937. Pp. xx, 772; xiii, 773-1625. \$10.00 the set.)

In two substantial volumes Dr. Porter presents the history for two generations of the commercial activities of two Massachusetts families, the Jacksons and the Lees. The material presented consists largely of hitherto unpublished commercial correspondence of the merchants in these two families for the period 1765-1844. As we should expect, the documents are not evenly distributed throughout the period. They are most abundant for the years 1800-1819, are very few during the American Revolution, and almost completely disappear for the period 1825-1839.

The work is much more than a collection of valuable source material. In the first place, the documents are preceded by a 150-page introduction

entitled "The sedentary merchant in Massachusetts, 1765-1844." In this excellent essay, Dr. Porter has not only outlined the commercial fortunes of these two families, but has described the general characteristics of Massachusetts commerce with special attention to the business methods, customs and ethics of the time as illustrated in the records of the Jacksons and the Lees. Dr. Gras, the editor of the *Harvard Studies in Business History*, has written a brief foreword which describes the rôle of the sedentary merchant in relation to the general sweep of capitalistic development.

In the second place, the usefulness of the book to students, not to mention the pleasure to the general reader, is greatly enhanced by the author's comments which precede nearly all of the documents. These introductions provide continuity to the story as told in the letters and in a variety of ways make the documents more easily understandable. Anyone who has done work in the old letter-books of merchants knows the time-consuming effort ordinarily required not so much to read the script (which is often very good) but rather to understand what is written. In these introductions the troublesome questions concerning commercial terms and abbreviations, family relationships, value of foreign coins, obscure and obsolete place names, weights and measures, etc., are cleared up by Dr. Porter with a competence reflecting wide and painstaking research.

The Jacksons and the Lees were sedentary merchants. Their main business was the importation and exportation of goods by sea in both the foreign and domestic trade. Sometimes they owned the ships in which the goods were transported, more often they did not. Chiefly they were wholesalers dealing either in their own goods or in those of others on a commission basis. Their operations extended literally to the ends of the earth, but the focal point of the business was the counting-house located in Beverly, Newburyport or Boston. From the counting-house they directed their far-flung operations not only in England and the continent of North America, but also in Spain, India, South America and the West Indies.

Representatives of both families were at one time or another important figures in the commerce of the Boston area, but they never obtained the great wealth or importance of such merchant princes as Astor or Girard. The older generation of these two merchant families was, in the late Colonial Period, primarily interested in the trade to the West Indies and to the Spanish Peninsula, or in the coastwise trade and importing from Great Britain. During the war they turned to privateering, Joseph Lee being one of the few who emerged with a handsome net profit from these ventures. The younger generation, which was gradually taking over the business at the beginning of the new century, tended increasingly to specialize in the East India trade, especially that with Calcutta. Later still, following the general trend of the times, they gradually abandoned com-

merce and identified themselves with the rising manufacturing interest of Massachusetts.

The work is clearly a major contribution to the business and economic history of the United States. We have known altogether too little of the business structure and commercial organization of that period when the sedentary merchant was at the center of our economic order. There is much still to be done; but, thanks to this study, we now have needed additional information on business structures and customs of the period. More clearly than before we can understand the training of the sedentary merchant as we see the Jacksons and the Lees attaining to that position either by way of the counting-house or the quarter-deck. Of special interest is the material which Dr. Porter gives us on the business ethics of the time, the importance of family relationships, and the customary payments and rates of profit in the foreign trade.

Of outstanding value, also, is the mass of material now made available for the first time on the commerce with India. While the China trade has received a great deal of attention, that to Calcutta has been generally slighted. The market organization in Calcutta differed greatly from that in Canton, being in general much more complicated. As a result of the many letters describing this trade by those actually participating in it, as well as the extensive attention which Dr. Porter has given it in his explanatory notes, we are now in a position to understand much better the India trade both in its heyday before 1816 and in its decline thereafter.

GEORGE R. TAYLOR

*Amherst College*

*Morocco as a French Economic Venture: A Study of Open-Door Imperialism.* By MELVIN M. KNIGHT. (New York: Appleton-Century. 1937. Pp. x, 244. \$2.25.)

This is a meticulously and competently discriminating study of French imperial economy and policies relating to Morocco. It is by all odds the best detailed study of colonial economy. The investigation, while strictly economic in its main intention, does not fail to make appropriate side glances to political, demographic, geographical, social and cultural factors.

All those Americans who regard themselves commissioned by manifest destiny to offer "constructive plans" to a misguided Europe and Asia, will find here ample confirmation of the fact that terms of moral beauty are hollow if not substantially undergirded by specific and accurate knowledge. The author explodes with a nicety of irrefutable criticism the "romanticism" and "religion" of Western imperialism. It is an incontrovertible appraisal of imperialism, which the world-wide depression has brought to its heretofore most complete "judgment."

The author capably analyzes the diverse features of multiple imperialism, which the tyranny of words has euphoniously called "the open door." "Open door" is a ludicrous attempt on the part of the powers to pool their special interests by dickering for results. The volume constitutes a thorough catharsis of the deluded advocates of the "open-door" policy with its false hopes of economic equality, disinterestedness and magnanimity.

The author disconcertingly asks the pertinent question: who paid for the costly economic transformation and Europeanization of a "backward" country? Huge military expenditures from France's budget, swelled by millions of anonymous taxpayers; gigantic government loans for the development of the technological basis of a transplanted economy; heavy capital investment by private Frenchmen who had come to Morocco in the hope of quick and large returns; the temporary profitableness of a state mining monopoly; the political and accounting manipulation of surpluses that were largely spurious, account for a pre-depression country with an unduly large yearly adverse trade balance running a regular surplus of receipts over expenditures in its budget.

The sources of revenue tapped in the effort of the economic transformation of the colony are: customs duty; a crop tax, which is in practice oppressive to poor people; the government mining monopoly; and consumption taxes on sugar and tea, especially hard on the natives, according to the formula—relieve the rich and soak the poor.

Next, Professor Knight deftly traces the fortunes of the various policies pursued in the economic Europeanization of Morocco. The settlement policy consisted in the expropriation of land of high quality from the natives. A doubtfully productive credit policy was substituted for the former policy of economy. The imposition of French quotas with the shrewd result of refining the "open-door" treaties was gradually inaugurated.

Prior to the varied effects of the world depression, a local crisis in the form of a crop failure and consequent drop in trade and budget receipts, the government implemented certain well known "New Deal" measures. The world depression was in part responsible for the launching of an effective agitation against the "open door," further revision of quotas at the expense of the welfare of the natives. The colonial administration in due time turned protectionist; but the interested foreign powers blocked the elaborate tariff scheme.

The author reaches the conclusion that while colonies can be appraised in limited accounting terms, they are not exclusively ventures for profit, even if they do not pay; but problems of imperial defense and demography, social and cultural considerations stubbornly blend with economic factors to prevent any absolute appraisal of colonial empire building.

That the time is bound to come when colonial administrations must grant a progressively larger voice to colonials is a most compelling fact of the post-war period.

HERMAN HAUSHEER

Lamoni, Iowa

*Economic Planning in Australia, 1929-1936.* By WILLIAM RUPERT MACLAURIN. (London: P. S. King. 1937. Pp. xv, 304. 15s.)

This book, the result of the author's researches in Australia on a Sheldon Fellowship, revives the reviewer's occasionally faltering faith in doctoral theses. It combines in one volume a successful undertaking in research, a valuable contribution to economic history, and a work of genuine interest. It presents a narrative account of Australia's concerted national effort to combat depression, a careful analysis of the measures instituted, and a critical evaluation of the entire program.

The early chapters give a general description of the Australian economy, a picture of the pre-depression boom conditions, and an account of the violent impact of depression, as early as 1928, on the highly regimented industrial activities of Australia. The body of the book is given to a detailed study of the measures enacted in the attempt to mitigate the severity of depression and to establish a footing for recovery on a new "deflated" level. There is a concluding section which summarizes the program and judges its results.

The assault on depression was on all fronts, although not simultaneously. The major measures were a horizontal reduction of wages, a forced reduction of the interest rate on outstanding public and private debt, a devaluation of the exchange value of the Australian pound, a system of public works, manipulation of the tariff, suspension of agricultural debt foreclosures, a rather involved system of fixed prices and bounties for certain domestic products, and a radical reduction in government expenditures. Not all these extraordinary devices were utilized in full.

For Dr. MacLaurin's handling of the all but impossible task of tracing the effects of these measures on the economic progress of Australia, individually and *in toto*, there can be only admiration. The treatment is in part chronological, in part topical; and a minor amount of confusion and repetition is unavoidable. Here and there, as in the case of the complexities in wage-control under the dual governments and of the "home-price" system of subsidies, the treatment could be made clearer for the ordinary reader. Nor can there be any quarrel with the author's general conclusion that the recovery effort brought equilibrium and recovery. The proof of the pudding is in the eating thereof; and Australia did achieve a marked recovery. The reader may decide for himself whether recovery would have come later or earlier if deflation and liquidation had been unimpeded. A

comparison of Australian recovery with that of nations which had no planned recovery or planned it quite differently might have strengthened the author's conclusion. Exalted authority has been insisting, until recently, that recovery in America has been due to planning of a quite different character.

For American readers the book does a distinct service. It demolishes the propaganda-inspired popular belief that this country and Australia adopted similar projects of planned recovery, and with equal success. The inevitable contrast of American political methods with those of Australia is depressing but salutary. The government of Australia appealed to its most capable economists and adopted their recommendations in the face of powerful opposition from affected interests. Comparison of the Australian Copland Committee with the nondescript, itinerant advisory group in this country leads inescapably to the thought that the distress this country has endured might have been avoided. Perhaps the most startling evidence of Australian intelligence in the book is the fact that the economists were able to show the country the stupidity of the doctrine of arbitrary wage-levels "to increase consumer-power."

This book can be read with profit by every economist. It should be made assigned reading in Washington.

NEIL CAROTHERS

*Lehigh University*

*La Camera dei Fasci e delle Corporazioni.* By C. ARENA and Others. School of Corporative Sciences, Univ. of Pisa, pub. no. 7. (Florence: Sansoni. 1937. Pp. 253. L. 18.)

This must be accounted an illuminating book. It is one of those collections of essays by a number of writers that have become frequent under fascism. The authors are nine men who have come forward under the new government. There is no question about the political allegiance of any of them. Yet the book is in no sense propaganda.

Each of the authors is occupied in varying degree with the theory of the Chamber of Fascists and Corporations, and each presumes a knowledge on the part of his readers of the organization of the fascist state. Only incidentally does he present facts regarding that organization. None is a reformer, except to develop the idea of fascism still further. None is a critic disturbed by vital shortcomings. Mussolini is referred to respectfully or reverently (even with a capitalized pronoun), usually in his rôle of promulgator of principles of the constitution; sometimes as *capo dello stato*, a neutral term which might imply the need for a successor some day. But otherwise there is no intimation that a system which has seemed to turn upon the present Duce will not last forever.

Much is said of the inadequacy of elections and of democracy, all in

favor of the organic or functional government of Italy which does not know those patterns. The Chamber's members are the designated representatives of Party and Corporations, but their powers are limited, the Corporations speaking for a relatively specialized group. There are other representative agents, in the fascist sense, the Duce himself, for instance. But more:

When the country is called upon to make vital decisions for its future, perhaps for the future of the world, these decisions are made in the public square, in a newspaper editorial room, in the office of a minister courageous enough to act without prior parliamentary debate; they are made wherever the life of the nation pulsates, but they are not made in Parliaments (p. 53).

The differences between the Anglo-Saxon and Italian governments are so fundamental that neither presumably can understand the other's language. There is simply no occasion in this volume to discuss freedom of speech or freedom of the press, or even, on the other hand, dictatorship. The economist will look in vain for references to business or private economic initiative, unless the general references to the Corporations of the Chamber and their basis in industry can be so regarded, but he will find much on the political atmosphere in which industry must live.

Modern Italy has not always been fascist. To some extent—who shall say how far?—fascism represents a reaction to what went before, perhaps immediately before. What will occur when the force of the reaction is spent? What will occur when new national needs, economic perhaps rather than military, have to be met?

R. F. FOERSTER

Princeton, New Jersey

#### NEW BOOKS

ANDERSON, O. N. *Struktur und Konjunktur der bulgarischen Volkswirtschaft*. Kieler Vorträge 52. (Jena: Fischer. 1938. Pp. 18.)

ANSTEY, V. P. *The economic development of India*. 3rd rev. ed. (New York: Longmans Green. 1937. Pp. 594. \$9.)

BARNES, H. E. and BECKER, H. *Social thought from lore to science*. Vols. I and II. (Boston: Heath. 1938. Pp. xxiv, 790, lxxxiv; viii, 791-1178, lxxvii. \$5; \$4.)

BEERS, H. P. *Bibliographies in American history: guide to materials for research*. (New York: Wilson. 1938. Pp. 339.)

Contains nearly 7,700 entries, thoroughly classified. Chapter 5 covers economic history (pp. 96-133) with 964 entries. The compilation is based upon a comprehensive search of entries from over 700 libraries. This provides a most useful tool for students in all branches of economic problems.

BOAK, A. E. R., editor. *University of Michigan historical essays*. (Ann Arbor: Univ. of Michigan Press. 1937. Pp. vii, 182. \$2.25.)

BOWDEN, W., KARPOVICH, M. and USHER, A. P. *An economic history of Europe since 1750*. (New York: Am. Book Co. 1937. Pp. viii, 948.)

CARR, E. H. *Michael Bakunin*. (New York: Macmillan. 1938. Pp. 501. \$6.50.)

- CLAPHAM, J. H. *An economic history of modern Britain. Vol. III. Machines and national rivalries (1887-1914) with an epilogue (1914-1929).* (New York: Macmillan. 1938. Pp. xiv, 577. \$7.)
- COTTA, F. *Economic planning in corporative Portugal.* (London: P. S. King. 1937. Pp. xiv, 188. 8s. 6d.)

Consummate judgment upon contemporary economic experimentalism had best be held in abeyance; for the subtle and cumulative effects upon ideology, upon social philosophy, and upon teleological attitudes of the population do not emerge at once. Moreover, it is doubtful if quantitative aspects of an economy are the sole measures of its progress as seems often to be assumed by sympathetic writers upon these experiments.

This little book is difficult to appraise. It is not objective in its analysis; it does not follow causes to their ultimate conclusions; yet, it is not clear propaganda. It gives an admirable statement of the organization of Portuguese corporative entities, their powers, their functions, and their problems. Nevertheless the book is an obviously sympathetic description of a "beautiful movement" (p. 157) dominated by a "retiring, silent, non-violent dictator" (p. 4) who "gently, yet how efficiently" (p. 4) directs a nation in which "auto-direction" (p. 174) will eventually govern the economy, but in which "for the time being, and *accidentally*, the controlling bodies . . . are manned by government appointees or nominees" (p. 174). On page 180 we learn that the result is "a new economic and social order, in which together with progress there will be perfect equilibrium between supply and demand at fair prices . . ." yet on page 30 that the "Portuguese economic price (of wheat) was about double the world parity."

The author implies that all favorable economic changes are the results of the corporative movement and not of world economic conditions, that remaining unsatisfactory situations are mere vestiges of the preceding system, and that "the accident of government control will pass away . . . when the dearth of suitable men disappears." After all, economic planning in a small nation with a simple economy is very different from that in a huge and complex one.

F. F. BURTCHETT

- DOPSCH, A. *The economic and social foundations of European civilization.* (New York: Harcourt Brace. 1937. Pp. xiv, 404. \$5.)

This is a welcome and competent translation of the second edition of Dopsch's great work, the first edition of which appeared in two volumes in 1918-20. The English version is considerably abbreviated. The title of the German editions bears the additional information that the period covered is from Caesar to Charlemagne, a fact which is important to the prospective reader.

This work is a monument of learning, based upon the examination of primary sources and secondary works in great number. It is written decidedly for the specialist. The central theme is that the barbaric invasions which overthrew the decaying Roman Empire did not destroy Roman civilization. The Germans are said to have trickled into the Empire and to have absorbed the Roman culture. Town life was not destroyed; and trade, with the use of money, continued throughout the sixth and seventh centuries.

While Dopsch has given us a needed correction of the age-long view of the wholesale destruction of Roman culture, he has doubtless gone too far in holding to such widespread continuity. Hardly anything is so well estab-

lished in history as the early decline of Roman pagan culture or the rising influence of a new and Teutonic civilization. That the first did not wholly disappear and the second has been over-emphasized is altogether likely. This may be the essence that scholars will finally distill from the work of Dopsch.

Economists will be interested in one more *exposé* of the "closed economy" of Karl Bücher. On this subject they should also consult the later work of Dopsch entitled *Naturalwirtschaft und Geldwirtschaft in der Weltgeschichte* (1930). It is a bit surprising to the reviewer that in the 1930's it should be necessary to combat closed economy in the pre-Carolingian period.

This work has been written to revise not only Bücher but a vast literature. On the whole the error of Dopsch is greater than the errors of Bücher, Sombart, and others when he holds to a general survival of towns. What happened, as it seems to the reviewer, was that Roman town economy retrograded to village (free or manorial) economy, with a few towns surviving here and there in sections favorably located for distant trade, and with scattered farms and villas well entrenched in certain areas.

N. S. B. GRAS

EURICH, A. C. and WILSON, E. C. *In 1937*. (New York: Holt. 1938. Pp. x, 523. \$2.)

A rapid and concise summary of world events in 1937. Chapter 2 describes the development of sit-down strikes, and chapter 4 the wavering of business. EYRE, E., editor. *European civilization: its origin and development*. Vol. VI. (New York: Oxford Univ. Press. 1937. Pp. 1624. \$7.50.)

FAULKNER, H. U. *American economic history*. 4th ed. (New York: Harper. 1938. Pp. xvi, 828. \$3.50.)

About 12 pages have been added to the last chapter, so that the narrative is brought down to the autumn of 1937. The new material is added section by section. The framework of the presentation is thus left intact despite considerable new matter. Minor changes have been made in the earlier parts of the book, but they are hardly more than corrections in detail. No additions have been made to the bibliographies of these early chapters. A. P. U.

FIELD, G. L. *The syndical and corporative institutions of Italian fascism*. Stud. in hist., econ. and public law, no. 433. (New York: Columbia Univ. Press. 1938. Pp. 209. \$2.75.)

FRANCK, L. R. *Démocraties en crise: Roosevelt, Van Zeeland, Léon Blum*. (Paris: Ed. Rieder. 1937. Pp. 79.)

HAFEN, L. R. and YOUNG, F. M. *Fort Laramie and the pageant of the West, 1834-1890*. (Glendale, Calif.: Clark. 1938. Pp. 429. \$6.)

HANKE, L., editor. *Handbook of Latin American studies: a guide to the material published in 1936 on anthropology, art, economics, education, folklore, geography, government, history, international relations, law, language, and literature*. (Cambridge: Harvard Univ. Press. 1937. Pp. xv, 515. \$3.)

Twenty-five scholars besides the general editor contributed to this book; and its publication was assisted by a grant from the American Council of Learned Societies. The initial volume of a project so comprehensive in scope and depending for completeness upon the coöperation of publishers and authors in all parts of the two Americas may lack some items. Omissions will doubtless be rarer, however, in succeeding issues, of which we hope there may be many in their season. One title reported too late to be included that will be of interest to economic readers is the *Boletín de la Asociación Internacional*

*Permanente*, published in Buenos Aires by the Congreso Sudamericano de Ferrocarriles. Three contributors have prepared the economics section, Chester Lloyd Jones for the Caribbean area including Mexico, D. W. Phelps for South America except Brazil, and Max Handman for Brazil. This section contains some 77 pages of titles of books and articles, comments upon the more important items, and introductory paragraphs to each of its three divisions. Titles suggesting an economic content also appear under other headings, such as history or government. Eight special articles, notes of organizations, meetings and projects, and an indispensable index complete the volume. The special articles upon Latin-American archives and upon Latin-American libraries promise to be very useful to students contemplating research in the countries south of us. In fact this book and the two-volume *Bibliography of Economic Literature in Latin America*, also issued by the Harvard Press, mark sizeable progress toward charting the route for such explorers.

VICTOR S. CLARK

HANSON, C. L., editor. *A journal for the years 1739-1803 by Samuel Lane of Stratham, New Hampshire*. (Concord: N. H. Hist. Soc. 1937. Pp. vi, 113. \$2.)

An interesting source-book, throwing light particularly on the hardships of farmers in New Hampshire in the eighteenth century. The diarist was not only a farmer, but a tanner, shoemaker, and surveyor. Entries describe the droughts, devastations by worms and blights, fluctuations of paper money, primitive methods of travel, and unemployment.

HANSON, S. G. *Utopia in Uruguay: chapters in the economic history of Uruguay*. (New York: Oxford Univ. Press. 1938. Pp. viii, 262. \$3.50.)

HAUSER, H. *Economie et diplomatie: les conditions nouvelles de la politique étrangère*. (Paris: Recueil Sirey. 1937. Pp. viii, 86.)

Five lectures delivered in Rio de Janeiro to aspirants to Brazilian diplomatic and consular careers form the basis of this book. Professor Hauser shows how the rise of democracy in western Europe changed the subject matter of diplomacy from politics to economics. The competent diplomat is no longer concerned with dynastic struggles but with the factors that make life hard or easy for his masters, the common people. Three great problems of international economics are discussed, *viz.*, access to raw materials, access to markets, and population movements. The point of view is usually that of an opportunistic believer in international coöperation. Colonies should not be taken from the "haves" (France and England) and given to the "have nots" (Germany and Italy). Professor Hauser optimistically relies on the system of mandates and the open-door policy to protect the "have nots" from discriminatory treatment. Eventually he looks forward to the pooling of raw material resources and their equitable allotment by an international authority, such as the League of Nations. The origin of planned national economies is found in the obstacles placed in the way of international trade. Autarchistic policies have led to economic warfare. Commercial treaties, and particularly the most-favored-nation clause, have lost much of their validity. The result is anarchy in international economic relations which can be cured only by the extension of planning into the international field. On principle, Professor Hauser is opposed to the control of migration but his sense of practical politics forces him to favor quota limitations on immigration of races whose assimilation is difficult. He concludes:

Il est inhumain d'exclure de tel pays, comme le fait une politique courante, certaines

ances. Il serait impossible et dangereux de leur ouvrir toutes grandes les portes au risque de dénationaliser le pays qui les accueille. Il faut essayer, dans la pratique, de concilier deux droits également sacrés: le droit de l'homme à se déplacer, le droit des nations à persévérer dans leur être.

The style is easy, and the treatment suggestive rather than profound.

PERCY W. BIDWELL

HILL, H. *George Mason, constitutionalist*. (Cambridge: Harvard Univ. Press. 1938. Pp. 322. \$3.50.)

HOLLAND, W. L. and MITCHELL, K. L., editors. *Problems of the Pacific, 1936: aims and results of social and economic policies in Pacific countries*. Proc. of 6th Conf. of Inst. of Pacific Relations, Aug. 15-29, 1936. (Chicago: Univ. of Chicago Press. 1937. Pp. ix, 470. \$5.)

Part I is a summary of conference discussions which dealt with the United States, Japan, Russia, China, "The changing balance of political forces in the Pacific and the possibilities of peaceful adjustment." The editors have succeeded in writing detailed and scholarly summaries of the discussions, in the course of which are found much valuable information and provocative differences of opinion. The section on Japan is especially valuable, particularly because of the analysis of Japan's great export boom of 1932-1935. Many tables on total exports from Japan, exports from Japan to certain countries, imports into Japan from certain countries, and a great many statistics woven into the text, give an excellent view of the main trends of Japanese economy through 1935. One particularly interesting sub-section, "Western points of view," presents the effects of Japanese export expansion on Western producers. It would seem from the editors' summaries that no bones were made about condemning Japanese methods, although throughout this section the Japanese point of view is carefully presented.

Part II, "Documents," consists of six studies by competent specialists. These papers and their authors are: "Trade and trade rivalry between the United States and Japan," W. W. Lockwood, Jr.; "Factors affecting the recent industrial development of Japan," Kamekichi Takahashi; "The resources and economic development of the Soviet Far East," E. Raikhman and B. Vvedensky; "Recent developments in the Chinese communist movement," Reizo Otsuka; "The reconstruction movement in China," George E. Taylor; "The working of diplomatic machinery in the Pacific," Quincy Wright.

The quality of the first study may be suggested by reference to some of the sub-headings: "Japan's export boom," "Competition in the Philippines," "China—'the great potential market,'" "Direct trade between the United States and Japan," "Collapse of raw silk," "Rayon competition in the United States," "Competition of Japanese manufacturers," "Raw cotton exports to Japan," "American *v.* Indian cotton." The study of the Soviet Far East is revealing of the great wealth of the region. Whether or not one accepts as highly accurate the five-year plan statistics, one grasps the enormous potentialities of Russia's eastern areas. The other studies in this part of the book are also valuable, notably Mr. Takahashi's paper.

The volume as a whole is not up to date, but provides much of the fundamental economic data for the period preceding the present war in China, and by its extreme objectivity and thoroughness demands space on the shelves of all students of international economic and political relations.

THEODORE SMITH

HORRABIN, J. F. *An atlas of current affairs*. 1938 ed., 4th ed. rev. (New York: Knopf. 1938. Pp. x, 149. \$1.50.)

Contains four new maps of Spain and the Western Mediterranean, Palestine, China and India, as well as revisions in the text.

ILLYEFALVI, L. I. *Güterverkehr der Haupt- und Residenzstadt Budapest*. (Budapest: Bur. Communal de Statistique. Pp. 150.)

Interesting charts and diagrams in colors.

LAWLEY, F. E. *The growth of collective economy*. Vol. I. *The growth of national collective economy*. Vol. II. *The growth of international collective economy*. (London: P. S. King. 1938. Pp. xx, 524; xv, 485. 35s., two vols.)

LIND, A. W. *An island community: ecological succession in Hawaii*. (Chicago: Univ. of Chicago Press. 1938. Pp. xxii, 337. \$3.)

LIPSON, E. *The economic history of England*. Vol. I. *The Middle Ages*. 7th ed., rev. and enl. (New York: Macmillan. London: Black. 1937. Pp. xii, 674. \$5.75.)

MADGE, S. J. *The domesday of crown lands: a study of the legislation, surveys, and sales of royal estates under the commonwealth*. (London: Routledge. 1938. Pp. xvii, 499. 25s.)

MOORE, D. R. *A history of Latin America*. (New York: Prentice-Hall. 1938. Pp. xii, 826. \$5.)

In breadth and detail of treatment this history of Latin America approaches the utmost limit of a single-volume work upon the subject. While its maps, paragraphing, and extensive bibliography give it the aspect of a textbook, its style and copiousness befit the library as well as the classroom. The allotment of text to different periods and topics is judicious and meets both the needs of students and the interest of general readers who wish history chiefly to elucidate today's conditions. Some errors such as crediting the Caribbean countries with two or three cane crops a year and South America with only one railway across the Andes will doubtless disappear in subsequent editions.

VICTOR S. CLARK

PEEL, G. *The economic policy of France*. (London: Macmillan. 1937. Pp. viii, 242. \$2.50.)

Mr. Peel has written a lucid, readable account of the French financial problem and an eloquent appeal for better management. The story starts with the point of highest contemporary interest, the Blum experiment of 1936-1937. Blum's efforts are clearly and thoughtfully summarized; but Mr. Peel, who has been an earnest student of French affairs for some time, realizes all too well that French deficits were not born with the first Blum cabinet. Financial mismanagement, he thinks, took a turn for the worse about 1880. Consequently he devotes the bulk of his space, 17 chapters in all, to a historical survey of the economic and financial problem from that time to the present.

Told in this way the tale is dramatic. Over and over again, in these six decades, budgets have gone out of balance and into the confusion of supplementary estimates, extraordinary and a dozen other kinds of extra budgets, and ever-growing borrowing. Over and over again the experts protested that the French, who knew so well how to economize privately, were impulsive spendthrifts in their public capacities. Real and fancied perils swelled the bills. The scramble for colonies and the pre-1914 armaments race weighed more heavily on France than on any other of the great nations. The drain of the World War (which France financed almost entirely by borrowing), the cost

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of reconstructing the devastated areas and the failure of the better part of reparation payments are financial catastrophes the memory of which is fresher. For a brief period after Poincaré saved the franc in 1926 France had, Mr. Peel thinks, a chance to save herself. But she did not try very hard. And the crisis and the Hoover moratorium struck. From 1931 to the present she has floundered in increasing darkness.

The last chapter (except for the epilogue) ends with a plea for the reorganization of the budget and the cessation of borrowing. Some months have passed since those words were written, and no one has heeded the warnings of this or other expert friends of France. Today, as the last words of this review are being written, the radio breaks in with a shout: "The French cabinet is expected to fall today on the financial issue." Nowhere in the country has there been a change of heart, and a new cabinet can scarcely do better.

ALZADA COMSTOCK

PIERRO, M. *L'esperimento Roosevelt e il movimento sociale negli Stati Uniti d'America*. 2nd ed. (Milan: Mondadori. 1937. Pp. xxxvi, 631. L. 30.)

ROZMAN, D. and SHERBURNE, R. E. *Historical trend in Massachusetts industries, 1837-1933*. Bull. no. 340. (Amherst: Mass. Agric. Exp. Station. 1938. Pp. 31.)

SANDERS, J. B. *Early American history (1492-1789): political, social, economic*. (New York: Prentice-Hall. 1938. Pp. xxi, 705. \$5.)

This college textbook is one of a series edited by Professor Carl F. Wittke. There are 34 chapters divided into 270 sections, a 42-page introductory bibliography for the student, 4 maps, no charts or illustrations, and a good index. The book purports to cover political, social and economic history from 1492 to 1789. Yet only three chapters (23 sections), those on (1) agriculture, (2) land, money and taxes, and (3) trade, commerce, manufactures and miscellaneous business, and 22 scattered sections elsewhere, deal with economic history. There is little that is new in these except a few interesting items from the Shelburne papers; and much that is old could be better told. For example, the importance of Indian corn to the early colonists deserves development, and the opposition of British merchants to legal tender paper money is only inferred and nowhere explained. The author's interest is clearly in political history.

DONALD L. KEMMERER

SCHMIDT, C. T. *The plough and the sword*. (New York: Columbia Univ. Press. 1937. Pp. vii, 197. \$2.50.)

From one angle this book is economic history. There has always been a dearth of books in English that adequately describe the ever-complex situation of Italian agricultural labor, with its secularly slow changes. The chapters dealing with reclamation of the soil, with farm workers, small proprietors, sharecroppers, etc., contain many admirable passages. The conquest of the Pontine marshes—what it gives to Italy and what it withholds—is well described. Aspects of the labor movement are brought up to date. If this whole story of Italian agriculture and the agrarian classes could have been told for its own good self, with more detail, more awareness of the past, more sense of departure from the past; if it could have been treated more objectively (with some sacrifice of the picturesque) and with a broader realization of the international situation of the decade that followed the war, it would have made a book of economic history of altogether unusual value.

But from another angle the book is anti-fascism of an almost doctrinaire

sort. In his extensive search for fact and evidence, the author (one suspects) has kept one eye alert to the doings of the enemies of labor. Delimitation of his study to the fascist era did not require that he make Mussolini and his associates the villains of the play, painted all black. Fascism arose in an Italy weakened by war and all in confusion. We are told that Mussolini, groping for support, was ready to offer a socialist program to agriculture. When the propertied classes gave him their support, he turned his back upon the propertyless. A realistic sense requires that Mussolini be regarded as one playing a large game, both in and out of Italy, a game that leads to many restrictive policies. Tight social control, conservation of property, national self-sufficiency, ability to fight sanctions, wars of conquest, follow. Their aftermath is a declining standard of living, more share-cropping, unemployment, such conditions of housing as Dr. Schmidt describes in his last chapter (rightly stating that they resemble those described in the commission reports of 1909-11), suppression of labor demands, all coupled with official claims of improvement.

ROBERT F. FOERSTER

SCHUHL, P.-M. *Machinisme et philosophie*. (Paris: Alcan. 1938. Pp. 108. 12 fr.)

This little volume traces the connection between philosophy and the development of machine techniques in industry. The author cites numerous mechanical achievements of the ancients as evidence of their ability to achieve a machine industry, and then explains their failure to do so by the existence of slavery, which made it unnecessary to economize labor and created a set of values which involved contempt of manual labor (pp. 8-9).

The gradual change in attitude toward mechanical pursuits was effected by the works of such men as da Vinci, Bacon and Descartes; but the actual advance in technology was made by workmen and business-men under the impulse of economic factors. The development of the machine brought forth conflicting opinions from the savants—optimistic eulogies from those who fastened on the increased production of wealth, and pessimistic diatribes from those who perceived the insecurity and misery of the workers.

For the ancient and to some extent for the mediaeval period, the book is a good and well-documented treatment. For the modern period, it is little more than a collection of comments by publicists on the machine.

W. B. HARVEY

SPEED, E. D. *A social and industrial history of Britain*. (London: Pitman. 1937. Pp. 151. 2s. 9d.)

STEINER, H. A. *Government in fascist Italy*. (New York: McGraw-Hill. 1938. Pp. xii, 158. \$1.50.)

THOMAS, P. J. *The central problem of Indian economy*. Presidential address, Indian Economic Conference, Hyderabad, Dec. 28, 1937. (Madras: G. S. Press. 1938. Pp. 36.)

WALLACE, S. L. R. *Taxation in Egypt, from Augustus to Diocletian*. (Princeton: Princeton Univ. Press. 1938. Pp. 521. \$6.)

*Archivist of the United States: third annual report for the fiscal year ending June 30, 1937*. (Washington: Supt. Docs. 1938. Pp. vii, 175.)

*Etude comparée du capitalisme et du bolchevisme: la stabilisation monétaire—est-elle souhaitable, est-elle possible?* Travaux du Congrès des Economistes de Langue Française, 1937. (Paris: Domat-Montchrestien. 1937. Pp. 174. 48 fr.)

This interesting volume contains two papers, together with the discussions,

given at the meeting of the Congrès des Économistes de Langue Française, February 8-9, 1937.

The main thesis of the first paper, "A comparative study of capitalism and bolshevism," by M. Jean Lescure, is that bolshevism is fast taking on the trappings of capitalism, economic inequality, a wages system, surplus value, lending and borrowing at interest, and preoccupation with profit and loss statements (p. 17). M. Lescure, therefore, sees in Russia proof that economic laws are as compelling and immutable as the laws of physics (pp. 25, 27).

Most significant of all, Russia's experience demonstrates, he believes, that saving is an essential, generative force (l'animatrice) for any economy. Russia needs capital; and she gets it as any nation does—by levies on incomes and current consumption (pp. 17-21).

M. Lescure's critics make minor strictures of certain statements. M. Landry holds that wages in Russia are determined, not by marginal productivity, but by average productivity (p. 37). M. Germain-Martin emphasizes the use made of profits and the lack of freedom for producers in the Russian system (pp. 54-55). Professor Rist objects to applying the term "equilibrium" to the Russian regime of price-fixing and conscripted production (p. 62).

In the second paper, "The stabilization of money," M. Laurent Dechesne argues that the present managed, or "manipulated," currencies should be replaced by some form of the gold standard. Perfect stability cannot be obtained in a dynamic world, but the gold standard has provided greater monetary stability than any other currency (p. 107). In this view the conferees concur.

As to when and how the return to gold could be effected, there was some difference of opinion. MM. Hornbostel (p. 124), Lescure (pp. 134, 146-47), Dechesne (p. 146), and Allix (p. 156), stress the need for international coöperation and agreement. Mr. Gaston Jèze and M. Germain-Martin hold that a country like France could stabilize alone; that the chief requisite is a balanced budget (pp. 147, 153-55).

J. S. ROBINSON and V. O. WATTS

*L'évolution de l'économie française, 1910-1937: tableaux statistiques publiés par l'Institut Scientifique de Recherches Economiques et Sociales.* (Paris: Recueil Sirey. 1937. Planches 52.)

*The Library of Congress: Division of Manuscripts, 1936-37.* (Washington: Supt. Docs. 1938. Pp. 15.)

*Revista do Museu Paulista.* Tomo XXI. (Sao Paulo: Imprensa Official do Estado. 1937. Pp. vii, 1055.)

*Statistical abstract for the United Kingdom for each of the fifteen years 1913 and 1923 to 1936.* 81st no. (London: H. M. Stationery Office. 1938. Pp. xvii, 453. \$2.)

## *Agriculture, Mining, Forestry, and Fisheries*

*International Raw Commodity Price Control.* By ROBERT F. MARTIN. Stud. No. 238. (New York: Nat. Industrial Conf. Board. 1937. Pp. xvi, 166. \$3.50).

From the large number of raw materials recently or currently subjected to international price control the author has selected the following nine: cotton, wheat, sugar, coffee, rubber, silk, tea, copper, and tin. One chapter

is devoted to each of these commodities. These specific commodity chapters, while varying in size from eight pages for tea to seventeen pages for wheat, show close structural resemblances.

A few remarks on "the economic nature" of the commodity serve to introduce a chronological account of "price controls." This is followed by an analysis purported to test the "success" of these controls. This analysis, largely statistical in nature, is built around a series of charts showing the movements during the period 1920 to 1936 of stocks and prices of the nine commodities expressed as percentages of the 1923-25 average and adjusted to pertinent changes.

This statistical material is checked against the general theoretical assumptions that (1) in a free open market prices tend to reveal an inverse and proportional relationship to stocks, and that (2) deviations from this presumably normal relationship indicate and supposedly measure the effect of artificial control. The fact that these deviations might be due to other causes is briefly suggested in the introductory chapter (pp. 7-8) but lost sight of in the body of the analysis.

Each commodity chapter contains a chart in which the movement of stocks and prices is shown as well as a full-page silhouette chart giving for each commodity the deviations of prices from a straight line indicating their assumed normal behavior. A chronological enumeration of the principal price-control measures accompanies each silhouette chart, the numbers in the chronology referring to corresponding numbers in the chart itself, an arrangement which clearly implies the author's belief in a close causal relationship between these deviations and the control measures listed.

The nine silhouette charts for individual commodities are combined in a composite silhouette chart which forms the core of the introductory chapter on "general aspects of raw commodity price control." It is argued that, regardless of the commodity affected, price-control schemes pass through similar cycles and are headed for a similar fate. This common behavior pattern is described as follows: efforts to "stabilize" prices after temporary success fail, lead to a collapse of the market, and necessitate the reorganization of the industry. This is soon followed by renewed failure and worse collapse. This in turn invites government interference which, at first moderate, becomes increasingly drastic and eventually forces the industry to complete dependence on, if not subjection to, state authority. Economics yields to politics, the business-man to the politician. In most cases the country which started to control prices, at the end of this evolutionary cycle, finds itself in a worse position.

Several appendices contain notes on statistical methods, a list of sources of data, and four tables showing prices and stocks of the nine commodities, both in absolute figures and in index numbers.

As an up-to-date compilation of historical and statistical data this study

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is a welcome addition to the literature on the subject. In its interpretation of these data and as a guide to the proper appraisal of international raw material price controls, their economic justification and "success," the book is of more doubtful value. This is due to arbitrary limitations of the scope as well as to specific weaknesses of the statistical analysis.

No explanation is given for the selection of the nine commodities. The discussion of their economic nature is inadequate. The behavior of stocks and prices of each commodity is studied for approximately the same period without proof that the same time period possesses equally significant implications for all commodities.

The problem of raw material price control, moreover, is not correlated to the wider issues involved in the decline of competition, the end of laissez faire, and the corresponding rise of the tide of control schemes which is engulfing almost all economic life, and not merely the raw material sector. This arbitrary limitation of scope creates the impression of empiricism and weakens the author's position of categorical scepticism toward price control. Blind faith in natural economic law seems outmoded.

In this respect this study is out of line with the general literature on the subject. For some time the trend in price control analysis has been away from abstract generalization toward increased emphasis on judicious appraisal of specific commodity characteristics, specific market situations, specific structural features of both the production and the marketing mechanism, and on similar peculiarities of specific political, social, and economic situations. Not categorical condemnation but careful delineation of the area to which control may offer relief from unbearable hardships of imperfect competition is the chief objective. This trend is clearly discernible in the writings of G. W. Stocking and Myron W. Watkins on petroleum, of Walton H. Hamilton on coal, of the Brookings Institution authors on agricultural products, of W. Y. Elliott and his collaborators on the non-ferrous metals, of the contributors to H. Schumacher's valuable series, *Wandlungen der Weltwirtschaft*, and above all in the masterful studies of the English economist J. W. F. Rowe. What challenges the economist of today are "the bafflingly intricate and bewilderingly varied forms" of control, and the necessity to differentiate with judicious care between the constructive and destructive elements of controlled, as well as of competitive, economy. Without such differentiation and discrimination the analysis of price control is apt to become bogged in doctrine. Commodities such as cotton and copper cannot be thrown into one pot without both losing their flavor. Nor can cotton and coffee be treated alike. For, the normal price behavior of annuals differs almost as fundamentally from that of perennials as the price behavior of minerals differs from that of agricultural commodities.

More serious than this arbitrary limitation of the scope of this study

is a fundamental weakness of the analysis itself. The author's thesis that (1) normal prices tend to be inversely proportional to stocks, and that (2) deviations from this normal behavior indicate the effect of price control appears untenable—and that for two reasons.

In the first place, there is and can be no *normal* price behavior wholly independent of demand. Prices reflect differences in and variations of elasticities of both supply and demand. Moreover, stocks of raw commodities must be, and actually are, appraised with due regard to actual and potential capacity and willingness to produce more stocks, to stocks of finished goods made from the same raw commodity and from substitutes, to changes in the interest rate and other factors affecting the feasibility of prolonged storage, to changes in the mood of speculator-merchant communities, and to varying degrees of perishability. These and similar facts not only render untenable the author's thesis of a "normal" simple mechanistic interaction of prices and stocks, but go far to explain the ups and downs depicted in the silhouette charts and attributed to abnormal effects of price control.

In the second place, the failure to consider the effect of control on stocks is a fatal omission. Must not the major effect of controls be sought in their effect on stocks themselves? How, then, can this effect be treated as part of the "normal" price behavior of controlled commodity prices, as is expressly stated on page 30? Does not the straight line around which the silhouette charts are built conceal rather than reveal the primary and major impact of the very controls enumerated under these charts? To be sure, not all control measures have recognized the importance of output and stock control; not all control agencies have had the power to enforce their policy. But that does not alter the fact that the essence of such control measures as the Stevenson plan, the copper cartels, the tin cartel, the A.A.A., the Chadbourne plan, has been the effort to bring output in line with demand and thus to control stocks.

To measure the success or failure of these control schemes, one would have to know what prices would have been in the absence of control, and that is simply impossible. Above all, one would have to know what economic dislocations and social upheavals would have accompanied or followed ruthless application of the surgical knife of free competition. And that also is impossible. In social studies short cuts are treacherous.

ERICH W. ZIMMERMANN

*University of North Carolina*

*Butter and Oleomargarine: An Analysis of Competing Commodities.* By W. R. PABST, JR. Stud. in hist., econ., and public law, no. 427. (New York: Columbia Univ. Press. 1937. Pp. 112. \$1.50.)

This little book is an interesting combination of historical, theoretical,

and mathematico-statistical analysis. Although the size of the book does not admit of a comprehensive historical survey, the 16 pages of chapter 1, which is entitled "The development of the industries," provides a helpful background. The second chapter is also largely historical in treatment and gives an account of the competitive struggle between the butter and oleomargarine industries. Especial attention is given to the efforts of the dairy industry to lessen competition from oleomargarine through the enactment of laws restricting the sale of the "artificial" product. The restriction of oleomargarine production through limitation of color, through legislative molding of popular opinion, and by taxes and licenses is described and in part justified. Nevertheless, the author holds that, on the whole, the various laws which have been passed are undesirable artificial restrictions on the free flow of competition between the products.

Dr. Pabst apparently fails to grasp the fundamental basis of the struggle between the champions of butter and of oleomargarine. He looks upon the conflict as being between the oleomargarine and the *butter-making* industries and argues that aid to butter is not aid to agriculture. This is in spite of his evidence that materials (mostly cream and milk) for the butter-making industry constitute a much larger per cent of the value of butter than materials of the oleomargarine industry constitute of the value of oleomargarine, and that profits in the butter-making industry are lower than in the oleomargarine industry. It is the farmer dairymen who have most to gain from an increase in the prices of or sales of butter, whereas farmers who produce raw materials for the oleomargarine industry would gain relatively little through increased sales of that product.

Chapter 3, "The relationship of butter and oleomargarine," begins with a theoretical discussion which is largely in terms of the indifference curve concept. Statistics are then presented which show yearly average retail prices of butter and oleomargarine and other related data including consumption of butter production of oleomargarine, and "deflated per-capita income" estimates for the years 1921 to 1934.

Regression coefficients are computed for various combinations of these data. No one without experience in correlation procedure is likely to realize the amount of work which was expended in computing the 22 multiple regression equations which Dr. Pabst has obtained. In each instance the standard errors of the regression coefficients are shown. The author states that "logarithms of the actual data were used throughout in accordance with Professor Hotelling's suggestion that the distribution of the logarithms of prices approaches the normal form more closely than the distribution of the actual prices." No other justification is given for the use of logarithms alone in the correlations. Neither is the reader given any evidence as to whether the characteristics of the data warrant the use of logarithms in even one, much less in the entire set of computations. The book contains

no charts showing either the way in which the variates are distributed in respect to each other or what is the nature of the residuals in relation to the lines of partial regression. While it is evident from the size of the standard errors that most of Dr. Pabst's regression equations are meaningless, his presentation does not indicate whether this is due to the particular combination of variables used or to a poor choice of the type of regression equation.

Consequently in order properly to appraise any of Dr. Pabst's regressions, it is necessary for the reader to start with the raw data and, for the most part, to make his own analysis of them. This the reviewer has done (with the help of an assistant) for a number of combinations of the data. To present fully the results of this analysis would require many times the space available for a review. Briefly, however, it is the opinion of the reviewer that, by a more astute coördination of theory and statistical evidence, most of the calculations could have been known to be useless before they were made, and furthermore some regression relationships which were not calculated would have been more significant than the best obtained by Dr. Pabst.

In a section entitled "The nature of the conclusions," Dr. Pabst seems clearly to recognize that in view of the fact that the data used were time series, his results have no significance from the standpoint of statistical inference based on the theory of sampling. Yet elsewhere he appears to attribute significance to the calculated "standard errors" of the regression coefficient. In his own words he says, ". . . it is assumed, implicitly, that all the sampling values of the statistics are drawn from the same population and hence that the population or true value can be estimated on the basis of the sample values found." In the opinion of the reviewer it is far more important, in obtaining regression equations for time series data to attempt to carry through an analysis in a manner designed to result in the regression coefficients expressing the approximate *causal* connection between the factors.

In the final chapter the question of further taxation of oleomargarine is taken up. This is treated both from a theoretical standpoint and by the application of the regression equations found in the preceding chapter. In the light of his opinion of the regression equations themselves, it should be obvious that the reviewer questions the value of any conclusions that can be drawn from them.

E. J. WORKING

University of Illinois

NEW BOOKS

BERCAW, L. O. and HANNAY, A. M., compilers. *Bibliography on land utilization, 1918-1936*. U.S. Dept. of Agric., misc. pub. no. 284. (Washington: Supt. Docs. \$1.50.)

- BRÜCKNER, H. *Bedarf und Versorgung des skandinavischen Koble- und Koks-marktes*. Probleme der Weltwirtschaft, Band 61. (Jena: Fischer. 1938. Pp. xvi, 137. RM. 7.50.)
- BUCK, J. L. *Land utilization in China: a study of 16,786 farms in 168 localities, and 38,256 farm families in twenty-two provinces in China, 1929-1933*. Vols. I and II (*Atlas*). (Chicago: Univ. of Chicago Press. 1937. Pp. xxxii, 494; xii, 146. \$5, each vol.)
- CULLEY, M. J. *An economic study of cattle business on a southwestern semidesert range*. U.S. Dept of Agric. circ. no. 448. (Washington: Supt. Docs. 1937. Pp. 24. 5c.)
- CULVER, D. C., compiler. *Land utilization: a bibliography*. 1935, reissued, with typographical corrections, No. 15, 1937. *Supplement*, 1937. (Berkeley: Univ. of California Bur. of Public Admin. 1937. Pp. ix, 222; vi, 139. 50c., each.)
- FOLSOM, J. C. and BAKER, O. E. *A graphic summary of farm labor and population (based largely on the census of 1930 and 1935)*. U.S. Dept. of Agric., misc. pub. no. 265. (Washington: Supt. Docs. 1937. Pp. 48. 10c.)
- HAMILTON, T. R. *A statistical study of wool prices*. (College Station, Texas: A. & M. Press. 1938. Pp. 56.)

"The purpose of this study is to apply definite quantitative analysis to the economic laws of supply and demand. Statistical methods will be used to demonstrate that the economic factors which affect the production, demand, and price of a specific commodity such as wool can be determined and their relative importance evaluated."

The first five chapters present an outline of the sources of data, time movements in production and price, and the marketing of wool. These chapters serve as a background for the analysis of prices, and simplify the study of wool prices for those not familiar with the wool trade. The analysis ascertains and measures the main factors that cause wool prices to vary, and determines the way those prices move according to time elements such as long-time, cyclical, and seasonal movements. Consideration is also given to the relationship between production and price cycles.

- HARRISON, T. J. *Manual de venta y manipuleo de granos mediante elevadores de campana*. Pub. no. 18. (Buenos Aires: Comision Nac. de Granos y Elevadores. 1937. Pp. 66.)
- JENSEN, E. *Danish agriculture: its economic development. A description and economic analysis centering on the free trade epoch, 1870-1930*. (Copenhagen: Schultz. 1937. Pp. xvi, 417. \$3.75.)
- KIMURA, M. *Japan's agrarian problems*. Foreign Affairs Assoc. of Japan. (New York: Stechert. 1938. Pp. 38. 25c.)
- LACY, M. G., compiler. *Agricultural economics: a selected list of references*. Agric. econ. bibliog. no. 1, rev., 1938. (Washington: U.S. Dept. of Agric., Bur. of Agric. Econ. 1938. Pp. 31, mimeographed.)
- MALOTT, D. W. *Problems in agricultural marketing*. (New York: McGraw-Hill. 1938. Pp. xiii, 410. \$3.)

The cases are divided into 12 groups classified somewhat according to the more common chapter headings found in textbooks. One group deals with the problems encountered by individual farmers in disposing of their crops to best advantage, and another deals primarily with questions of public policy involved in various recent activities of the federal government. The other sections are

divided between the problems of individual and coöperative concerns handling farm products and the broader questions of the organization and functioning of service agencies such as boards of trade and commodity exchanges.

The cases cover a wide range of situations, and are presented in an interesting manner. Little material is included which deals with the market news and the grading and inspection service of the federal government and other agencies. Neither is much said about the methods of selling and types of dealers handling perishable and semi-perishable products such as fruits, vegetables, butter, and eggs, which arrive in wholesale markets from distant producing areas. However, it would obviously be impossible to cover all the subjects that might properly be included without greatly enlarging the book.

Many of the cases raise questions that could hardly be intelligently considered by the ordinary student without a great deal more information than is supplied in the description of the case itself. Fairly extensive lists of readings, designed to supplement the material presented in the individual cases, are presented at the end of each section. The book should prove valuable as a supplementary source of material for classroom discussion, rather than as the main text.

ROY A. BALLINGER

- MARESCALCHI, A. *L'agricoltura italiana e l'autarchia*. (Turin: Einaudi. 1938. Pp. viii, 140. L. 12.)
- VELLA, G. F. *L'offerta nell'agricoltura e la sua disciplina*. (Città di Castello: Soc. Tip. "Leonardo da Vinci." 1937. Pp. 31.)
- WAITE, W. C. and COX, R. W. *Seasonal variations of prices and marketings of Minnesota agricultural products, 1921-1935*. Tech. bull. 127. (Minneapolis: Univ. of Minnesota Agric. Exp. Station. 1938. Pp. 59.)
- WENCELBLAT, F. G. *La evolución de la exportación de granos en la Argentina y en otros países exportadores*. Pub. no. 20. (Buenos Aires: Comisión Nac. de Granos y Elevadores. 1937. Pp. 101.)
- Annual report on tobacco statistics, 1937*. Stat. bull. 63. (Washington: U.S. Dept. of Agric. 1938. Pp. 110. 15c.)
- Conserving our natural resources: a selected list of material useful to students and discussion clubs*. (Washington: Am. Assoc. for the Advancement of Science. 1937. Pp. 12.)
- Description of the official standards for wheat, oats, barley, rye and linseed, crop year 1936-37*. (Buenos Aires: Nat. Grain and Elevator Commission. 1937. Pp. 86.)
- Drainage basin problems and programs*. 1937 rev. Prepared by the Water Resources Committee of the National Resources Committee with the coöperation of local, state, regional, and federal organizations. (Washington: Supt. Docs. 1938. Pp. 154.)
- Graphic summary of farm labor and population (based largely on the census of 1930 and 1935)*. Misc. pub. 265. (Washington: U.S. Dept. of Agric. 1937. Pp. 48. 10c.)
- The milk marketing scheme, 1933, as amended to August 3, 1937*. (London: H. M. Stationery Office. New York: British Lib. of Information. Pp. 44. 1s. 1d.)
- Part-time farming in the United States*. U.S. Census of Agric., 1935, spec. stud. (Washington: Supt. Docs. 1937. Pp. 205. 50c.)
- Swift & Company year book covering the activities of the year 1937*. (Chicago: Swift & Co. 1937. Pp. 40.)
- Wheat studies*. Vol. xiv, no. 5. *World wheat survey and outlook, January, 1938*,

1938]

by H. C. FARNSWORTH and HOLBROOK WORKING. No. 6. *Trends of yield in major wheat regions since 1885*. Part ii. *Irregular, stable, and declining trends*, by M. K. BENNETT. (Stanford University, Calif.: Food Research Inst. 1938. Pp. 183-221; 223-261. 60c.; 75c.)

### Manufacturing Industries

*The World Textile Industry: Economic and Social Problems*. Vols. I and II. Stud. and rep., ser. B, no. 27. (Geneva and Washington: Internat. Labor Office. 1937. Pp. viii, 354; vi, 288. \$2.00, each vol.)

This highly important document prepared by the International Labor Office for release last Spring as a factual basis for the Tripartite Technical Conference on the World Textile Industry held at Washington in April, 1937, needs to be regarded from a dual point of view—as to its contents *per se*, and as a basis for international action for the improvement of labor standards in all textile manufacturing countries.

Probably for the first time an adequate statement of the international character of textile manufacturing is presented here in a form which will be readily available to those both within and outside the industry. The sections dealing with world textile manufacturing, world trade in textiles, and changing patterns of textile production and trade, give a mass of statistical data in a form which should win interest and approval on all sides. Similarly the factual data on textile labor conditions throughout the world—there is a special statistical supplement on wages and working conditions in all countries—shows what an excellent job of statistics gathering the International Labor Office has performed. Comparative costs of manufacture can be deduced from them, at least for the labor element of total cost. For example, it is shown that in Japan the cost for textile labor would on a most conservative basis, be only one-fourth that of the corresponding labor cost in any other major manufacturing country.

When the authors get away from factual presentation, the report becomes less convincing. This is particularly noticeable in their attempt to deal with the subjects of "Over-production" and "Under-consumption." To begin with, they have not attempted to carry the statistical series in this section nearer than 1929. Also, they resort to a classification of fibers into "Industrial consumption" and "Personal consumption," throwing cotton into the latter. This is not really a valid classification since fully 40 per cent of all cotton fabrics go into industrial uses, and on a poundage basis the percentage of cotton fabrics used in industry and agriculture runs considerably over 50 per cent.

Their conclusion here is that production curtailment programs are undesirable since they are predicated upon an over-production thesis. They overlook the fact however, that restrictions upon textile production, in this country at least, have been designed primarily to stabilize production and iron out excessive seasonal peaks. They turn also from effective demand to

potential demand as their guide for national policy in respect to production control. Admittedly every country in the world would consume far more goods of every kind if purchasing power could be miraculously created so that everyone could have a far larger amount of it. An approach to industry problems from that point of view, however, is hardly a sound one when working out a program to place before business-men who are concerned with the mundane matters of meeting payrolls, and trying to sell goods in a competitive market where profit margins at best are slender. And if we are to take the world as it is, it is those men, individually and collectively, who are going to settle these policies, whether they are American, British, Indian or Japanese. And it is those men, in the last analysis, who would have to be called upon to take action by way of ratifying any program that might have developed from the conference at Washington.

This brings us to the question of the value of such a compilation as a basis for action by the world textile industry. Most textile employers in this country, it probably could be said in all honesty, would personally prefer to be able to pay higher wage scales. The evidence for that is clear enough in the drastic increases which the N.R.A. brought about and which have been maintained almost throughout the industry up to the present time. It is also evidenced by the industry-wide wage increases that came in 1936 with returning prosperity. Furthermore, employers in this country would certainly like to see Japan, for example, pay a much higher wage rate than is paid there at present; but from Japan's viewpoint, and according to its standards and way of life it pays enough—a higher rate would disrupt its whole economy—just as to start paying the wage rate now being paid in Detroit automobile factories, for example, to cotton textile workers in the South, would bring about a complete disruption of the agricultural and industrial system in the South. Furthermore, from a quite practical point of view, those low wage rates along with a depreciated currency are a tremendous advantage to Japan in international trade in textiles, as is clearly brought out in this report.

The idea back of the Tripartite Conference, however, was not such undiluted optimism as to expect Japan quickly to give up that advantage. It was a good thing, undoubtedly, that the effort was made. The power of publicity directed at social problems has been proved in the past to be an effective one, though very slow at times. Today, however, with the curtain ringing down on the freedom of the press in one country after another, and with suppression elsewhere of propaganda for social causes like this one, one can hardly help feeling a sense of futility about trying to act as though reason could be made to prevail in international economic action.

S. J. KENNEDY

*New York City*

## NEW BOOKS

HOOVER, E. M., JR. *Location theory and the shoe and leather industries*. Harvard econ. stud., vol. lv. (Cambridge: Harvard Univ. Press. 1937. Pp. xvii, 323. \$3.50.)

This book is not a complete history of the American shoe and leather industries, nor is it an attempt to provide an exhaustive treatment of the theory of location. The historical treatment includes, according to the author, only such matters as are relevant to the question of geographic distribution. On the other hand, the treatment of the theory of location aims at presenting "enough of the outlines of the theory to acquaint the reader with progress in this still somewhat esoteric field. . . ."

Part 1 includes 7 chapters on the theory of location; part 2, with 3 chapters, deals with the leather industry; part 3 in 6 chapters considers the shoe industry; and in part 4 we find three chapters on summary and conclusions emphasizing the theoretical analysis.

Location theory for this book is considered to be a specialized branch of general economic theory. The analysis is primarily limited to cost factors. Industries are deemed to be oriented in terms of transportation costs, labor costs and transfer costs. Preferential demands and other theoretical considerations of this type are essentially neglected. Perhaps the author's statement that "before the theory of location can be a very useful practical instrument, it must be developed in some direction in which barely a start has been made" may be extended in principle to say in effect that possibly much more needs to be done before location theory can be oriented to general economic theory.

This book, not without interest to the general theorist, should be suggestive and valuable to the economic historian. Finally, it is probably the best book at the present time in English on this subject.

LLOYD L. SHAULIS

STEWART, M. S. *Steel—problems of a great industry*. (New York: Public Affairs Committee. 1937. Pp. 32. 10c.)

*A report on the future of the paper industry in the Southeastern United States and the effects on stumpage values*. (Cambridge: Am. Inst. for Econ. Research. 1938. Pp. 108, mimeographed. \$3.50.)

## Transportation and Communication

## NEW BOOKS

CAMPBELL, E. G. *The reorganization of the American railroad system, 1893-1900: a study of the effects of the Panic of 1893, the ensuing depression, and the first years of recovery on railroad organization and financing*. (New York: Columbia Univ. Press. 1938. Pp. 366. \$4.50.)

This is a study of the effects of the panic of 1893, the ensuing depression, and the first years of recovery, on railroad organization and financing. Its scope is considerably broader, however, than that indicated by this statement and covers nearly the whole field of railroad finance from the close of the Civil War to the end of the century. The author's main thesis is that the troubles of the nineties were legacies of earlier incompetence, unwise expansion, and financial malpractices in general. The depression of 1893 was more a purgative of former excesses than a cause of new difficulties. The major portion of the book

is occupied with accounts of most of the important reorganizations of the time including those of the Philadelphia & Reading, The Norfolk & Western, The Erie, The Baltimore & Ohio, The Northern Pacific, The Union Pacific, The St. Louis & San Francisco, and The Santa Fe.

In the process of reconstruction, the author finds, many profound changes were produced in our transportation system. Among these were extensive consolidation and the growth of large systems, a simplification of financial structure, assumption of control by a small group of influential bankers, a decrease in fixed charges but an increase in total capitalization, a greater use of voting trusts and other devices of financial control, and a more rigid supervision by the government. Though the study contains little new material, it should prove useful as a genuinely comprehensive history of this period of railroad finance. It has been carefully prepared, is well organized, and is entertainingly written.

ARTHUR F. LUCAS

- HENNIKER, A. M., compiler. *Transportation on the western front, 1914-1918*. (London: H. M. Stationery Office. New York: British Lib. of Information. 1937. \$5.50.)
- JOHNSON, E. R. *Government regulation of transportation*. (New York: Appleton-Century. 1938. Pp. 694. \$5.)
- LEWIS, E. A. compiler. *Laws relating to interstate and foreign commerce, August 29, 1916-August 26, 1937: 1, railroads; 2, wire control; 3, proclamations; 4, executive orders; 5, termination of federal control of railroads; 6, relinquishment of federal control, proclamation; 7, Emergency Railroad Transportation act, 1933*. (Washington: Supt. Docs. 1937. Pp. 380. 25c.)
- MELDER, F. E. *State and local barriers to interstate commerce in the United States: a study in economic sectionalism*. 2nd ser., stud. no. 43. (Orono: Univ. of Maine. 1937. Pp. xiv, 181. 75c.)
- PARMELEE, J. H. *A review of railway operations in 1937*. Spec. ser. no. 66. Reprinted from *Railway Age*, Jan. 1, 1938; figures rev. to March 26, 1938. (Washington: Assoc. of Am. Railroads, Bur. of Railway Econ. 1938. Pp. 39.)
- SHERRINGTON, C. E. R. *The economics of rail transport in Great Britain*. Vol. II. *Rates and services*. (London: Arnold. 1937. Pp. xv, 336. 12s. 6d.)
- STEVENS, W. J. *The future of British railways*. (London: P. S. King. 1938. Pp. xii, 101. 5s.)
- VAN PATTEN, N. *Hopkins Transportation Library*. (Stanford University, Calif.: Stanford Univ. Press. 1937.)
- VELLA, G. F. *Sulla teoria dei servizi pubblici, con particolare riguardo al servizio ferroviario*. Estratto dal vol. *Problemi di finanza fascista*. (Bologna: Zanichelli. 1937. Pp. 121-143.)
- WILGUS, W. J. *The railway interrelations of the United States and Canada*. (New Haven: Yale Univ. Press for the Carnegie Endowment for Internat. Peace. 1937. Pp. xvi, 304. \$3.)

Colonel Wilgus presents an exhaustive engineering study of the railway interrelations of the United States and Canada. The physiography of the two nations is sketched in a way to give the uninformed reader geographic background for the detailed, sometimes personalized and repetitious, history of the some 50 rail gateways along the 4,000-mile border. The material on border mileage, activities, and interconnecting bridges, while forming natural obstacles from an engineering point of view, is not treated in terms of economic problems and consequences. The two chapters on comparative investment, income and

rate structures, chapters which one would expect to be predominantly economic in nature, may disappoint the analytical-minded student of transportation. The ratios while clear are primarily descriptive without their economic significance being pointed out.

The study is permeated with the theme of an unparalleled positive harmony of border contacts (e.g., 19, 26, 37, 68, 69, 121, 212); one wonders what the real causes are and how permanent they may turn out to be. The law of comparative costs is stated in an elementary way on page 119 without recognizing it as such. The recent United States railway legislation of 1933 and 1934, which is somewhat a restatement of regulatory policies as far as this country is concerned, is not mentioned.

ORBA F. TRAYLOR

*Statistics of railways in the United States: fiftieth annual report for the year ended December 31, 1936, including also selected data relating to other common carriers subject to the Interstate Commerce act for the year 1936.* (Washington: Supt. Docs. 1937. Pp. S-174, 282. \$1.25.)

## Trade, Commerce, and Commercial Crises

### NEW BOOKS

DAY, C. *A history of commerce.* 4th ed. (New York: Longmans Green. 1938. Pp. 713. \$2.50.)

KRANOLD, H. *The international distribution of raw materials.* (London: Routledge. 1938. Pp. xxiv, 269. 15s.)

QUIGLEY, H. S., editor. *Peace or war? A conference.* Day and hour ser., nos. 17 and 18. (Minneapolis: Univ. of Minnesota Press. 1937. Pp. 205. 25c.)

Contains an article on "Fallacies of economic nationalism," by Benjamin B. Wallace.

RAPPARD, W. E. *Post-war efforts for freer trade.* Geneva stud., vol. ix, no. 2. (Geneva: Geneva Research Centre. 1938. Pp. 67. 40c.)

SCHLOTE, W. *Entwicklung und Strukturwandlungen des englischen Aussenhandels von 1700 bis zur Gegenwart.* Probleme der Weltwirtschaft, Band 62. (Jena: Fischer. 1938. Pp. viii, 182. RM. 10.)

SYRETT, W. W. *Practice and finance of foreign trade.* (London: Macmillan. 1937. Pp. vii, 233. 7s. 6d.)

TASCA, H. J. *The reciprocal trade policy of the United States: a study in trade philosophy.* (Philadelphia: Univ. of Pennsylvania Press. 1938. Pp. xiv, 371. \$3.50.)

This is a timely and distinctive publication. There is no dearth of printed matter on the subject, as Dr. Tasca's extensive bibliography attests; but it consists, for the most part, of magazine articles, pamphlets, and variegated government publications and releases—each either dealing briefly and in broad outline with the program as a whole or concentrating upon some particular agreement or phase. The only significant book previously published is Culbertson's *Reciprocity*. Although Dr. Tasca's volume covers some of the same ground and expresses a like sympathy with the Hull program, the two books differ so widely in scope, emphasis, and method as not to be regarded as competitive.

The central purpose of this author is to present a functional analysis of the new American tariff bargaining policy. The main body of his volume deals with problems and experience in implementing that policy and with appraisal

of work accomplished in the light of difficulties encountered and in terms of the twin objectives—trade liberalization and equality of treatment.

A chapter is devoted to each of the following topics: the development of the trade agreements organization and procedure; the administrative progress of the program and the factors tending to slow it down; the problem of most-favored-nation treatment in view of our autonomous tariff tradition, of the vogue of substantive bilateralism, and of the prevalence of non-tariff trade controls; and the general policy and actual practice of our government with respect to the generalization of concessions. Then come four chapters analyzing the sixteen trade agreements from the standpoint of tariff concessions granted and received; provisions regarding quotas; exchange provisions; and administrative protectionism.

A short chapter on the trade effects of the agreements thus far presents and examines statistical data, but cautions against assuming their conclusiveness.

The factual content of the book and its ample documentation, show wide and intelligent research.

PAUL S. PEIRCE

UPGREN, A. R. *Reciprocal trade agreements*. Day and hour ser., no. 19. (Minneapolis: Univ. of Minnesota Press. 1937. Pp. 26. 25c.)

WITHEROW, G. A. *Foreign trade of the United States, calendar year 1936*. Trade promotion ser., no. 174. (Washington: Supt. Docs. 1938. Pp. x. 222.)

*Balances of payments, 1936*. (Geneva: League of Nations. New York: Columbia Univ. Press. 1937. Pp. 236. \$1.50.)

A continuation of the annual series. Contains analyses of international accounts of 36 countries as against 29 in the volume for 1935. Data for Italy are not available.

*Foreign commerce and navigation of the United States*. Vol. I. 1936 (imports). (Washington: U.S. Dept. of Commerce. 1938. \$1.50.)

### Accounting, Business Methods, Investments and the Exchanges

*The New York Bond Market, 1920-1930*. By CHARLES CORTEZ ABBOTT. (Cambridge: Harvard Univ. Press. 1937. Pp. xvii, 224. \$2.50.)

The title of this book is misleadingly modest. Actually the book surveys in some detail the operations of the financial system in the United States from 1919 through 1930. Federal reserve policy, the changing financial practices of business corporations and their relation to commercial banking processes, gold imports and exports, the courses of various rates of interest, and the rise and fall of stock prices all receive some attention. Bond flotations in the country as a whole as well as changing bond prices in the New York market are carefully examined. Much use is made of the statistical method to array the facts, but the author is commendably careful to avoid drawing conclusions based on mere statistical correlation.

In general Professor Abbott's conclusions constitute a restrained and temperate indictment of the functioning of the American financial system in the period surveyed. The abundance of long-term credit available from 1923 to the middle of 1928 is alleged to have resulted in a situation of "dis-

equilibrium," the analysis at this point resting heavily on the ideas of J. M. Keynes as set forth in his *A Treatise on Money*. (One wonders what the effect would be of substituting the ideas of *The General Theory of Employment, Interest and Money*.) The ease of floating security issues with the resulting growth of indebtedness, alteration in the character of the assets of commercial banks, and increasingly rigid cost structure of industry all receive attention. No mention is made, however, of the tragic decline in the standards of investment banking houses, a decline graphically demonstrated by Professor George W. Edwards in an article in the *Harvard Business Review* for October, 1933.

Because his concept of equilibrium is largely that of Keynes (Keynes of *The Treatise*) instead of the more general concept of equilibrium (the theory of the general interdependence of all economic quantities) it is, perhaps, not surprising to find Professor Abbott concluding that there was "little or no tendency for excess industrial capacity to grow during the decade . . . the boom of the twenties does not seem to have brought serious maladjustment to the economic mechanism" (p. 159). Qualitative misuse of resources violating the principle of equimarginal returns must have resulted from the credit ease and corporate financial practices of the twenties. Certainly we seem recently to have had something like "serious maladjustment to the economic system." In passing it might be noted that an error frequently made by economists is that of identifying economic equilibrium with temporary relatively full employment of resources. This state of affairs may be maladjusted and out of balance in the general equilibrium theory sense of the term. It could scarcely be otherwise in a society having "elastic bank credit" and private "economic planning" by a relatively small number of large corporations.

There are 17 statistical appendices and a bibliography. Unfortunately errors occur in the titles of three of the charts ("millions" for "billions" in Chart V, page 32; "millions" for "hundred millions" in Chart VI, page 35; and in Chart VII, page 36).

It would be possible to differ with Professor Abbott on minor points in his analysis and interpretation. Occasionally the "absorption of credit" fallacy appears, or at least suggests itself (pages 96-97). But in general the competence with which the author has done a difficult job of narration, interpretation, and analysis predominates heavily over such faults as one economist is always able to find in the work of any of his fellows.

PAUL M. O'LEARY

Cornell University

#### NEW BOOKS

BACAS, P. E., MADDEN, J. T. and ROSENKAMPFF, A. H. *Auditing procedure*. (New York: Ronald. 1937. Pp. xvi, 443. \$3.75.)

This college text is divided into two parts: preliminary considerations and special problems. The first is concerned with the essential routines and handling

the work on the job. The second section considers in order of customary appearance on the balance sheet verification of the several assets and liabilities and concludes with three chapters on "Certificates and reports," "Branch accounts—partnerships—consolidated accounts," and "Preparation of budgets—consideration of client and employees—legal and ethical questions." There is a separate problem book paralleling the text. The book assumes a knowledge of accounting principles and so avoids discussion of accounting policy.

W. P. FISKE

BAKER, H. *The office library of an industrial relations executive*, 1938. Rev. ed. (Princeton: Princeton Univ. Industrial Relations Section. 1938. Pp. 24. 25c.)

BAKKEN, H. H. and SCHAAARS, M. A. *The economics of coöperative marketing*. (New York: McGraw-Hill. 1937. Pp. viii, 583. \$4.)

There are five major divisions: (1) the evolution of coöperative buying and selling, (2) the economic philosophy of coöperative marketing in the United States, (3) legal considerations of the coöperative method of marketing, (4) functional relationship of coöperative organizations, and (5) coöperation in perspective. The appendix contains a copy of the Capper-Volstead act and a sample membership agreement and contract.

The authors consider coöperative marketing largely from the standpoint of agricultural producers' associations, although some attention is devoted to an analysis of consumers' coöperative societies. Financing and pooling are treated extensively. Sales policies are given one chapter. Methods used by coöperatives in performing such marketing functions as storage, transportation, and grading are briefly considered.

If, as the authors state, the greatest single force for the success or failure of a business venture is its management, it seems to the reviewer that considerable attention should be given to the subject. In the chapter on management, the authors state that the members, directors, and the manager constitute the management, and then proceed to discuss briefly each element. It would be interesting to know the nature of the contracts used by associations with the managers, the previous experience and training of managers, and the methods used in selecting, training, and supervising employees. Does the coöperative association offer a desirable vocational opportunity to the employee?

The authors' technique of presentation is commendable. Each chapter is provided with a preview, which sets up the material for the reader. Some of the more recent developments, such as procedure for financing under the Farm Credit Administration, control of production, and market prorata plans, are included. The authors are fair in presenting the difficulties faced by the coöperative system and in picturing the limitations of coöperation. Admittedly coöperation is not a panacea for economic ills. "Developments in agricultural production, governmental intervention in agricultural marketing, increasing efficiency of private competitors, and changes in transportation and communication will affect . . . marketing associations." The authors look for the two systems, the private and the coöperative, to continue competing with each other.

KARL D. REYER

BECKMAN, T. N. *Credits and collections in theory and practice*. 3rd ed. (New York: McGraw-Hill. 1938. Pp. 631. \$4.50.)

BECKMAN, T. N. and NOLEN, H. C. *The chain store problem: a critical analysis*. (New York: McGraw-Hill. 1938. Pp. viii, 350. \$3.50.)

BOGEN, J. I. *Corporation finance*. (New York: Alexander Hamilton Inst. 1937. Pp. xx, 370.)

COWAN, D. R. G. *Sales analysis from the management standpoint*. (Chicago: Univ. of Chicago Press. 1938. Pp. xi, 210. \$2.50.)

This compact little volume represents a revision of a series of seven articles published in the *Journal of Business* of the University of Chicago in the issues from July, 1935, to January, 1937. Dr. Cowan's book must establish a record for the literature of sales management on the scores of the quality and quantity of evidence and analysis compressed into 200 pages. Those familiar with the discursive and weakly descriptive literature so typical of this field will find Dr. Cowan's product refreshing but not easy reading because of its rigorous condensation of materials and analysis. The author has applied scientific techniques to the "baffling" problems of finding "yardsticks or standards by which to judge sales performance." Although the evidence assembled is of necessity fragmentary, it is of great value because of the dearth of solid materials in this field. Knowledge concerning the possibilities and limitations of the application of precise statistical and accounting techniques to these problems is greatly expanded by the author's original work. The refinements that have appeared in the past fifteen years in the methods of measuring regional sales potentials, in establishing sales quotas, in testing the application of selling and advertising efforts, in cost accounting for sales, and in the coordination of the various specific instruments by management in relation to trade possibilities are sharply portrayed in Dr. Cowan's results.

This volume is a clear demonstration that the product of the application of precise, quantitative and analytical scientific techniques to the solution of managerial problems is valuable not merely to business executives and technicians. Students of statistical methods, and general economists will find the book useful. Particularly, economists concerned with the theories and modes of consumption should find the two lengthy chapters dealing with regional consumption of interest. Business-men and teachers in the fields of market management and research, of course, are the chief beneficiaries.

Throughout the pages of the volume there is evidence of meticulous care in research and in analysis, an awareness of the limitations of the techniques employed in relation to the problems surveyed, and an attitude of modesty of achievement.

E. T. GRETHER

DAHLBERG, A. *When capital goes on strike: how to speed up spending*. (New York: Harper. 1938. Pp. xxii, 218. \$2.50.)

DYKSTRA, G. O. and DYKSTRA, L. G. *Selected cases on government and business*. (Chicago: Callaghan. 1937. Pp. 703. \$5.50.)

HAROLD, G. *Bond ratings as an investment guide: an appraisal of their effectiveness*. (New York: Ronald. 1938. Pp. xii, 274. \$3.)

HUEGY, H. W. and WINAKOR, A. H. *The financial policies and practices of automobile finance companies*. Bull. no. 56. (Urbana: Univ. of Illinois Bur. of Bus. Res. 1938. Pp. 56.)

The automobile finance companies belied the gloomy predictions made in the 1920's concerning their ability to weather an economic storm. This study traces the balance sheet ratios of a group of them since 1926. The high proportion of borrowed capital and the low ratio of repossessions are most significant.

L.

KERN, K. *Common stocks are short term investments.* (New York: Author, 40 Wall St. 1937. Pp. 8. \$1.)

LAWLEY, F. E. *The growth of collective economy.* Vol. I. *The growth of national collective economy.* Vol. II. *The growth of international collective economy.* (London: P. S. King. 1938. Pp. xv, 485. 35s.)

LAWRENCE, W. B. *Cost accounting.* Rev. ed. (New York: Prentice-Hall. 1937. Pp. xvii, 598. \$5.)

This is a revision of a standard work first published in 1925. There is a substantial change in order of development, and the book has been increased by fifty pages. The subject is first approached from the angle of its relation to financial accounts. Following this and a chapter on specific order costing, the orthodox development is used with chapters on accounting for material, labor and manufacturing expense. Distribution costs, statement preparation, process costing, and standard costs, then receive extended consideration. A miscellaneous group of topics, including graphic charts, concludes the book. "A conservative attitude has been maintained." Problem material includes over 125 shorter problems and 16 longer exercises.

W. P. FISKE

LEBENTHAL, L. S. *The A B C of municipal bonds.* (New York: Harper. 1937. Pp. viii, 166. \$1.50.)

Mr. Lebenthal is a dealer in municipal bonds with enthusiasm for his business and a keen desire to preach the exceptional investment merits of municipals. He has addressed the book especially to the small investor not yet familiar with the advantages of these securities, but with an eye also to the instruction of the town official faced for the first time with the problem of floating a bond issue and of the latest recruit to the sales force of a municipal bond house. Both in style and content the book cannot fail to suggest advertising copy. Nevertheless, those averse to the reading of more technical works on the subject, which Mr. Lebenthal characterizes as "tiresome" and "dull," may derive both pleasure and profit from this informative and entertaining primer.

The book begins with an account, supported by illustrative documents, of the floating of the bond issue of a New Jersey town. Then follows the diary of an individual bond of the issue from issuance to maturity, designed to show the varied investment needs which it and its brothers met. The rest of the book—occupying about three-quarters of the whole—takes mainly the form of a dialogue between a neophyte municipal bond salesman and his sales manager, in the course of which the former is initiated into such matters as the foundations of municipal credit, the types and legal aspects of municipal bonds, their superior degree of safety as compared with public utility, railroad and foreign bonds, their suitability for the small investor notwithstanding the tax-exempt feature which makes them particularly attractive to wealthy individuals and institutions, the meaning and calculation of the yield basis, and the tests of a sound municipal issue. A short, selected bibliography and an index are added.

WILLIAM H. WYNNE

LEWIS, B. W. *Price and production control in British industry.* Public policy pamph. no. 25. (Chicago: Univ. of Chicago Press. 1937. Pp. 35. 25c.)

Great Britain has its own New Deal, including an N. R. A. without labor provisions. Unhampered by anti-trust laws and sheltered by the 1932 tariff,

coöperation has been rapidly replacing free competition in the British economy. Parliament, while never hostile, has lent statutory aid almost nowhere outside of the basic industries—coal, cotton textiles, shipbuilding, shipping and steel. Most trades enjoy self-government in the form of price fixing, production quotas, or other forms of coöperation without elaborate programs. Clothing, leather and shoes are mentioned for their relative freedom from control.

The only good accounts of this movement are by two Americans—Arthur F. Lucas in his *Industrial Reconstruction and the Control of Competition*, and the pamphlet under review. The pamphlet is naturally less inclusive—e.g., it omits agriculture and England's A. A. A.—but it carries the story two years further, to November, 1937 (and sells for \$5.50 less).

Mr. Lewis' conclusions are discouraging. He credits the absence of consumer resentment to the moderation of British business-men. But he criticizes the rigidity of prices, believes that quotas lead to inefficiency, and considers the schemes to scrap "excess capacity" destructive of social wealth. He fears the spread of economic maladjustments, making government regulation inevitable.

SIMON N. WHITNEY

LEWIS, C., assisted by SCHLOTTERBECK, K. T. *America's stake in international investments*. (Washington: Brookings Inst. 1938. Pp. xvi, 710. \$4.)

LIVERMORE, S. *Investment: principles and analysis*. (Chicago: Business Pubs. 1938. Pp. viii, 599. \$3.75.)

The book has four parts:

1. "The investment process" (9 chapters). There is a survey of the process of investment, the objectives of safety, appreciation, income and marketability and the probability of attaining these in securities of certain general types; a description from the financial viewpoint of different types of users of business capital and of the component parts of the "investment community" (dealers, traders, etc.); a description of the processes of creating and selling new security issues, the operations of exchanges and brokerage firms, institutional investors and the investment trust.

2. "The art of analysis" (6 chapters). There are five "approaches" to the work of investment analysis, designated as (1) history-and-background, (2) statistical, (3) cyclical or trend, (4) bargain-hunter, and (5) mathematical. Some attention is given to the problems of selecting the industry in which one should invest his funds, and also the company within the industry.

3. "Investment programs" (3 chapters). Attention is given to the differing requirements of differing types of investors; the problems of diversification; common stocks as investment securities. Here the author considers recent adverse criticisms of the so-called common-stock theory and concludes that these criticisms merely modify but do not destroy "the fundamental tenets of the so-called theory" (p. 459).

4. "Social control over investment" (3 chapters). Here is an account of the evolution of regulation, a brief description of our present federal program of regulation under the statutes administered by the Securities and Exchange Commission, and an appraisal of this program.

At the end of each chapter there is a list of selected references and questions and problems. The book contains an orderly presentation of the subject matter, written in a style which is simple and, as a rule, clear. It is a textbook rather than a manual for reference use.

The author is, to put it mildly, a conservative in matters of public regu-

lation. The old doctrine of economic harmonies is reflected in the statement that "uses for capital have been examined, tested, and judged by businessmen and bankers, who, acting outwardly for their own future profit, were in reality servants of society" (p. 2). But, "The United States has rapidly become a regulated economy, and, though the struggle to delineate the exact limits of control over private enterprise will continue, the general result is clear" (p. 487). His antagonism to governmental regulation of business is so great that he refers to the enforcement of the anti-trust laws against the meat packers as "almost malevolent" (p. 367).

There is so much in this book worthy of praise that one hesitates to make adversely critical comments. However, inexcusable typographical or clerical errors are frequent. The recent revision of the Bankruptcy act is referred to (p. 451) as a revision of Section 7. Is the injustice of providing transportation below cost "comprehensive to the average voter" (p. 281), or is it a question of its being comprehended or comprehensible by him? It is not clear how an English broker's commission of "3s. per £ share" is "about 1 1/4 per cent" (p. 151).

STANLEY E. HOWARD

- MCCORMICK, C. P. *Multiple management*. (New York: Harper. Pp. 145. \$2.)
- MACAULEY, F. R. *Some theoretical problems suggested by the movements of interest rates, bond yields and stock prices in the United States since 1856*. (New York: Nat. Bur. of Econ. Res. 1938. Pp. xiii, 240, A351. \$5.)
- MESEROLE, W. H. *Patterns of stores, sales, and population in the United States*. Market res. ser. no. 18. (Washington: U.S. Bur. of Foreign and Domestic Commerce. 1938. Maps.)
- NEUNER, J. J. W. *Cost accounting: principles and practice*. (Chicago: Business Pubs. 1938. Pp. 724. \$4.)
- NORTH, N. L. *Real estate selling and leasing*. (New York: Prentice-Hall. 1938. Pp. 619. \$5.35.)
- PHELPS, C. W. *Controlled installment credit*. (Chicago: Household Finance Corp. 1938. Pp. 44.)

In addition to the well-known principles, the author considers the down payment and length of contract in the case of non-durable goods.

- REITELL, C. *Cost accounting: principles and methods*. 2nd ed., rev. by C. E. JOHNSTON. (Scranton: Internat. Textbook Co. 1937. Pp. ix, 425. \$3.50.)
- ROHLFING, C. C., CARTER, E. W., WEST, B. W. and HERVEY, J. G. *Business and government*. 3rd ed. (Chicago: Foundation Press. 1938. Pp. xviii, 780.)
- SALIERS, E. A. *How to keep accounts and prepare statements*. (New York: Ronald. 1938. Pp. 493. \$3.)
- SWAYZEE, C. O. and HICKS, C. M. *An introduction to business*. (New York: Farrar and Rinehart. 1938. Pp. xxii, 691. \$3.75.)

The purpose of this book is to give the student a view of business organization and operation tied in with economic principles and related to the social environment in which business activity takes place. The authors, after sketching the history of business and describing the nature of business enterprise, divide the subject into seven parts: finance and accounting, personnel administration, production, marketing, administrative organization, business law, and finally, government and business. Each subject is given the relative amount of space that, in the judgment of the authors, it needs to make the proportions of their picture of business correct.

The book offers nothing essentially new in its treatment; but it does afford

a well-proportioned combination in a single volume, so coördinated as to avoid the repetition and overlapping that the student would inevitably find if he covered this same ground by reading independent works on these subjects.

The book is generously provided with illustrations, with charts, with statistical tables, and with another useful feature not recognized in any way in either the table of contents or the index. This feature is the lists of films given at the beginning of six divisions of the book. Seventy-six sets of films, of one to five sections each, can be had rental free, and 38 other sets on a rental basis. The names and addresses of the 33 suppliers of these films and of others of a similar character are given. The width of the films is stated for the benefit of the machine operator. The instructor would appreciate knowing the normal running time of each set.

In bringing the available material down to the compass of a single volume there is a general tendency to a somewhat encyclopedic presentation with rather scant background and over-brief analysis.

JAMES A. CAMPBELL

WERNE, B., editor. *Business and the Robinson-Patman law: a symposium*. (New York: Oxford Univ. Press. 1938. Pp. xiv, 296. \$2.50.)

The discussion centering upon the Robinson-Patman act brings to the fore the gigantic struggle which has been raging for decades within our distributive system. With the scales of the legal balance now heavily weighted in favor of the smaller distributor, one wonders if the course of economic development will be decisively influenced by the new law.

Mr. Werne's symposium does not give an exhaustive answer to this question. But its 16 contributions written by economists, lawyers, marketing men, trade association executives, and accountants illuminate many of the social, political, economic, and legal issues of the Act and form a mosaic full of detailed information on its particular features.

In its legal set-up the Robinson-Patman act is a supplement to the laws against monopoly, and it amends the Clayton Anti-Trust act. Arthur Robert Burns, Crichton Clarke and Wheeler Sammons have undertaken to trace the new Act's history back to its anti-monopolistic origins and to evaluate its objectives under the aspect of enforcing free competition. Thurlow Gordon, James Withrow and Blackwell Smith add the legal interpretations of the law's intricate concepts which are necessary to clarify its economic purposes. It appears from this discussion that years will elapse before the law's final meaning will have been established by the process of judicial interpretation; but it appears also that the uncertainty as to the legal rules will be less disturbing to business than had been at first anticipated. The dismissal of some of the leading complaint cases of the Federal Trade Commission has appeased certain apprehensions prevailing in the first month of the law's existence.

For this very reason the economic and social alterations brought about by the new price rule are presumably less stringent than could be expected. Paul Cherington's and Calvert Judkin's well documented discussions of the social background are none the less significant, since the conclusions one may draw from them suggest a further expansion of the movements from which the law has emanated. Both visualize the law as an outgrowth of the "little fellows'" organized effort for self protection against large-scale retailers.

With contributions of Edward S. Kaylin, who takes the stand for the department store, Hector Lazo, who speaks for the coöperative groups, and

Edwin George, who reviews the law from the general business viewpoint, the symposium affords a fairly comprehensive picture of the law's chief effects on distribution. The survey is further completed by Malcolm McNair's review of the marketing effects and the more specialized articles furnished by Grant Gore as to the food industry, J. K. Javits on paper distribution, A. S. Aaronson on cost accounting problems, and Denis J. Walsh's essay on the concept of substantial lessening of competition.

RHEINHOLD WOLFF

WOODRUFF, A. M. JR. *Farm mortgage loans of life insurance companies*. David A. Wells prize essays, no. 7. (New Haven: Yale Univ. Press, for Williams Coll. 1937. Pp. xii, 204.)

*The call feature in municipal bonds*. (Chicago: Municipal Finance Officers' Assoc. 1938. Pp. 118.)

*Curtailment, layoff policy, and seniority*. Stud. in personnel policy no. 5. (New York: Nat. Industrial Conf. Board. 1938. Pp. 11. \$1.)

*The Dow-Jones averages*. 8th ed. (New York: Barron's. 1937. \$5.)

*Guides to business facts and figures: an indexed and descriptive list emphasizing the less known business reference sources*. (New York: Special Libraries Assoc. 1937. Pp. 64. \$1.50.)

This pamphlet aims to serve as a key to current data and as a buying list for individual requirements. "It provides for the business-man a selective guide to a wide range of publications relating to his day's work and points the way to countless facts that have a vital bearing on current business conditions. It lists important statistical compilations, directories of information sources, guides to methods of handling information, indexes, glossaries, bibliographies, and special compilations of data of particular value to the business world, describing carefully each of 235 such guides and indicating its price and the address of the publisher."

*Prevailing practices in inventory valuation*. Stud. in admin. control no. 1. (New York: Nat. Industrial Conf. Board. 1938. Pp. 15. \$1.)

*Profit-sharing and other supplementary-compensation plans covering wage earners*. Stud. in personnel policy no. 2. (New York: Nat. Industrial Conf. Board. 1938. Pp. 22. \$1.)

*Profit-sharing plans for executives*. Stud. in personnel policy no. 6. (New York: Nat. Industrial Conf. Board. 1938. Pp. 15. \$1.)

*Securities of the United States government and its instrumentalities*. (Boston: First Boston Corp. 1937. Pp. 46.)

*Technical program of the thirteenth annual Michigan Accounting Conference*. Michigan bus. papers no. 1. (Ann Arbor: Univ. of Michigan Bur. of Bus. Res. 1937. Pp. 46.)

*What is the American Retail Federation?* (Washington: Am. Retail Fed., 1627 K St., NW. 1938. Pp. 16.)

### Capital and Capitalistic Organization

*The Folklore of Capitalism*. By THURMAN W. ARNOLD. (New Haven: Yale Univ. Press. 1937. Pp. vii, 400. \$3.00.)

Arnold's meaning of Capitalism is American banker control of business corporations. His meaning of Folklore is the personification of these corpora-

tions by means of slogans formulated by the Supreme Court of the United States.

His experience as a trial lawyer equipped him, he says, with the technique of using that folklore in arguments before a court, and he now uses it as a scientific investigator of capitalism and professor of law at the Yale School of Law. "A trial," he says, "cannot be a sensible way of investigating facts because the process consists in having two partisans indulge in mutual exaggerations on their own behalf with the idea that the judge will find the truth in the middle. The detective does not adopt that process." Arnold then becomes the detective-investigator of what actually goes on *sub rosa* while the lawyers, judges, economists and columnists are rallying the people by folklore. The folklore is their "fundamental principles," embodied in the "spirit of the Constitution" and in the "law of supply and demand." What goes on *sub rosa* is the organization by practical men of a capitalistic machine, a political machine, a bootlegging machine, to get done what the people actually need to satisfy their wants for food, clothing, drink.

The technique of lawyers and economists in creating the myth of corporate personality is that of using "the language of private property to describe an industrial army." "Social organization" was described "in the language of personally-owned private property" of the home and the family, when, "as a matter of fact, the things that were described were neither private, nor property, nor personally owned" (p. 118 ff.).

His analysis of folklore is:

1. A creed or a set of commonly accepted rituals, verbal or ceremonial, which has the effect of making each individual feel a part of the group and which makes the group appear as a single unit. . . .

2. A set of attitudes which makes the creed effective by giving the individual prestige, or at least security, when he subordinates what are ordinarily called "selfish interests" to those of the group.

3. A set of institutional habits, by means of which men are automatically able to work together without any process of conscious choice as to whether they will cooperate or not. . . .

4. The mythological or historical tradition which proves that an institutional creed has been ordained by more than human forces. . . . Although the emphasis may differ in different cultures all the common human values will be found represented in some form or other, whether the organization is a primitive tribe or the New York Stock Exchange.

5. Granted these essentials, we find successful organizations. Without them, organization can be maintained only by force, and force cannot continue long because it is too exhausting. . . . (pp. 25, 26).

His folklore is the emotional language which holds individuals together in "organizations," whether of nations or thousands of smaller organizations, "by making dissent, or even doubt, subject to various kinds of ostracism" (p. 23).

He notes that the court furnishes slogans for both sides and cites "the

great opinion of Mr. Justice Stone in the AAA case," which gave "positive philosophical authority to government participation in the production and distribution of goods." It had "fire and enthusiasm." It was an "offensive weapon of great potential force against the complete denial of national power by the majority of the court" (p. 339).

Recognizing that he must offer something positive instead of remaining critical and negative, Arnold concludes with certain principles of a proposed science of "Political Dynamics." He chooses this term, which, he says, is "not original and is already becoming familiar," as his "easiest transition" from the term "political economy" which "described an individualistic era."

In this proposed science he accepts the personality of corporations as consisting in their "habits, disciplines and morale" which give them unity (p. 350 ff.). Folklore becomes "ideals" which often are contradictory. A conflict arises between an "ideal," such as an anti-trust law or an anti-saloon law, and a social need which perhaps is not accepted as legitimate or moral, on account of which "undercover" organizations arise. Several illustrations are given, and he cites two scientific studies which conform to his program of the proposed science. One of them is the report of the National Resources Board "which gives us an idea of the vast possibilities available for our comfort if they could be used." The other is the work of Robert and Helen Lynd on *Middletown*, which "presents a picture of the psychological hazards which make it difficult for existing organizations to use those resources to the fullest extent" (p. 389).

JOHN R. COMMONS

*University of Wisconsin*

*Public Utility Rate Making and the Price Level.* By E. M. BERNSTEIN. (Chapel Hill: Univ. of North Carolina Press. 1937. Pp. x, 142. \$2.50.)

In this little volume Dr. Bernstein gives a clear, concise review of rate-making methods that have been used in the United States, critically appraising them from the point of view of their ability to be applied satisfactorily in times of changing price levels.

The procedure required by the rule of rate making as enunciated in *Smyth v. Ames* is complex, expensive and time-consuming. From an administrative point of view efficient use of this procedure becomes impossible in periods of rapid change in prices and interest rates. During the period 1915-1920, when prices rose rapidly, public-utility commissions, in order to hold rates at a minimum and to maintain uninterrupted service, were forced to depart from the established rate-making procedure. Some of the methods of valuation clearly departed from the rule of rate making but were countenanced as a war-time exigency; others might conceivably be held as conforming to a liberal interpretation of the rule. Of these methods that approached

conformity to the rule, three merit consideration as furnishing possible systems of valuation that can be adapted to present needs.

The first of these methods, that of basing reproduction cost valuation on average unit prices, found recommendation on account of its relative simplicity and was justified by the assumption of an abnormal and temporary price level. Although this method tended during periods of rising prices to keep valuations below the reproduction cost at current prices, it also tended to penalize those companies which had to expand their facilities at high prices. During periods of relatively stable prices average unit prices would approach cost of reproduction at current prices. With falling prices the average prices would be higher than current prices. As a means of minimizing rates this method would present advantages only under conditions of rising prices.

A second method used during war time was that of applying corrective indices to valuations established on the basis of pre-war prices. Although not used as extensively as the average price method, the corrective-indices method was well suited to minimize the complexity of valuation proceedings and to keep the valuation below reproduction cost at current prices. Difficulties were encountered in choosing an appropriate index number. Furthermore, only part of the increase in prices as indicated by the index was allowed to enter the valuation figure. The idea of using corrective indices was abandoned when the courts held that valuations must reflect fully the indicated rise in costs.

The third and most promising method was the split-inventory method of valuation. As commonly used, an earlier appraisal was considered basic and the cost of property acquired since that time was added to establish the present valuation. Continued use of this method would tend gradually to establish prudent investment as the rate base.

Following the survey of valuation and rate-making methods, the author presents his plan of a procedure of rate making that will be workable in times of changing prices. To obviate certain legal difficulties new franchises are to be offered to utilities which will by acceptance contract to abide by the terms of the proposed method. Initial valuation is to be established by a committee selected jointly by the company and the commission. Additions and betterments are to be considered valuation items in accordance with prudent investment theory. Bond interest and preferred stock dividends are to be considered as capital expenses. The fair rate of return is to be determined annually by the commission and established at such an amount as will maintain the market value of the common stock of the representative company at par or at such a figure as the commission may authorize. Errors in estimation are to be compensated in subsequent years. Assurance from competition of publicly owned plants is to be offered as an inducement to

the utilities; and the public is to be protected by provision for municipal or state purchase of the utility property at any time at a cost determined by the rate base.

Dr. Bernstein's well written and carefully documented book should be valued as a presentation of a plan for public-utility regulation and also as a survey of rate-making methods that have been used during periods of changing price levels.

STANLEY W. PRESTON

*Louisiana State University*

*British Experiments in Public Ownership and Control: A Study of the Central Electricity Board, British Broadcasting Corporation and London Passenger Transport Board.* By TERENCE H. O'BRIEN. (New York: Norton. 1938. Pp. 304. \$3.00.)

This book, by a student of government and political science, is a descriptive treatise, essentially from the administrative point of view, of the three major experiments now being undertaken in Great Britain in the ownership, operation and control of public utilities. The London Passenger Transport Board has the function of supplying Greater London with passenger transport, "a huge undertaking which touches many interests, sprawls over the jurisdictions of numbers of local authorities and employs large forces of clerical and manual workers" (p. 244). The Central Electricity Board, owning and operating the main transmission lines (the grid) of Great Britain, has the "highly expert function of broker of electricity" (p. 244). The British Broadcasting Corporation has a monopoly of broadcasting production in Great Britain and possesses "the unique function of supplying education and entertainment over the air" (p. 244).

These three agencies, each enjoying a monopoly in its own field, are designed to be economically self-sufficient enterprises, although the Central Electricity Board may apply to the Treasury for a guarantee for any of its loans. This guarantee, however, is not retroactive. The enterprises are publicly owned rather than owned by the government, since the capital is raised by the sale of non-voting stock to the public. The direction of the enterprises, however, is in the hands of Boards appointed by the government, and possessing a somewhat nebulous connection of responsibility through a minister to Parliament.

It is in these respects that the British experiments are unique. Responsibility for meeting the varied demands of consumers, investors, the general public, and even the vast labor interests involved, are thrust squarely upon an appointed, semi-autonomous group of men who are expected to administer their charge, as experts acting in the capacity of trustees. The attempt has been made to remove the operations of the corporations from political interference by that peculiarly British device of judgment and public

accountability rather than law, and by attracting persons of the requisite disinterestedness and ability such that "the dominant class in the society of the immediate future is likely to be composed of leaders who would rather run public corporations like the B.B.C. and the Central Electricity Board than exploit the far corners of the earth in order to become millionaires" (p. 177).

Each of these Boards occupies a different position in relation to the social and economic structure of Great Britain. The Central Electricity Board, as owner of the main transmission lines, is designed to introduce economies into electricity supply by coördinating generation. At the same time it exercises a large amount of control over generation by buying electricity from "selected stations" under contracts which give these generating concerns a guaranteed income. There is no control, however, over the distribution of electricity. Thus, structurally at least, the manufacture and retail of electricity form distinct businesses. The British Broadcasting Corporation has a monopoly of broadcasting production for Great Britain. Thus, it dominates the entire industry and the question has been raised as to whether it ought not to have something to do with the manufacture and sale of receiving apparatus. It apparently has power to enter motion pictures. It derives its revenue by a tax, 10 shillings a year, on all receiving sets. Finally, the London Passenger Transport Board has a monopoly of local transport. It generates its own electricity, independently of the C.E.B. but is prohibited from entering the manufacture and sale of transportation equipment and supplies.

An appraisal of these experiments must take cognizance of the unique social, political and geographic structure and position of the British Isles. Nevertheless, we in this country can well afford to give careful study to the devices which have been adopted. Mr. O'Brien's book gives a thorough description of them and is the best now available. The book contains little economic analysis, however, and there is need for penetrating and comprehensive studies of the many economic issues which have been raised.

DUDLEY F. PEGRUM

*University of California at Los Angeles*

#### NEW BOOKS

NADLER, M. *Corporate consolidations and reorganizations*. (New York: Alexander Hamilton Inst. 1937. Pp. xix, 361.)

YNTEMA, T. O., SIMONS, H. C. and SMITH, T. V. *Monopoly and competition*. (Chicago: Univ. of Chicago Round Table. 1938. Pp. 12.)

ZWICKY, J. F. *Public utilities*. (Jena: Fischer. 1937. Pp. xiv, 260. RM. 12.50.)

The author gathered the material for this study while in residence as an "exchange" student at Johns Hopkins University during the years 1929-1930. The work was completed in the early part of 1933, and has served as a doctor's dissertation at the University of Zurich. It is a systematic, though not a particularly extensive or profound survey of the legal position and the economic

peculiarities of the modern public utility in the United States. The most interesting part of the discussion is the writer's characterization and valuation of the commission system of regulation in the United States. This he believes, on the whole, to be suited to American conditions, although he points out its inadequacies, and thinks that substantial improvement will come slowly, and only after many years of effort.

He is particularly critical of the "valuation" doctrine; while his comments on this subject are not always accurate in detail, most American students will agree with the general tenor of his remarks. The treatise suffers at this point, as it does later in connection with the description of public utility structures, from the fact that it was finished in 1933. It thus contains no reference to the Roosevelt attempts at regulation by partial government operation, and it omits, necessarily, all discussion of the Federal Communications Commission, and of the more recent phases of the holding company controversy. For the same reason, the statistical tables in the text stop at the year 1927, or in some cases, at 1930, and even treatises such as those of Sharfman, the first two volumes of which were published in 1931, find no place in the bibliography. The book should be welcome to European readers, and to Americans who desire to know how the "utility" problem in this country impresses a well-informed outsider.

STUART DAGGETT

*Antitrust laws with amendments, 1890-1937.* (Washington: Supt. Docs. 1937. Pp. 78. 10c.)

*Federal antitrust laws, with summary of cases instituted by the United States and lists of cases decided thereunder.* (Washington: Supt. Docs. 1938. Pp. 355. 40c.)

### Labor and Labor Organizations

*Life Earnings in Selected Occupations in the United States.* By HAROLD F. CLARK, assisted by MERVYN CROBAUGH, WILBUR I. GOOCH, BYRNE J. HORTON and ROSEMARY N. KURTAK. (New York: Harper. 1937. Pp. xx, 408. \$5.00.)

Life earnings in an occupation are defined as the sum of present values, discounted at 4 per cent, of the average earnings in each year of a working lifetime, the individual remaining throughout his lifetime in the occupation. The estimates refer largely to earnings from the occupation rather than to the total net income of the members of the occupational group. The average earnings are derived for two periods, 1920-29 and 1929-36, each period yielding a separate estimate of life earnings and of average annual income. The occupations covered are mostly in the professional fields: architecture, dentistry, medicine, engineering, journalism, law, library work, ministry, nursing, teaching (college and public school), social work. But for purposes of comparison somewhat less detailed estimates of life earnings for clerical occupations, skilled work, farming, and unskilled labor are given. The data are presented at three levels of detail: first, a brief summary of the final estimates; then a separate section for each occupational group, with brief comments upon the significance and limitations of the findings; and

finally, the last part of the volume presents the underlying data with fairly copious citations of text and figures from the sources.

The stated purpose of the book is to summarize information of importance in vocational guidance and of value for the larger purposes of planning and guiding our society. But the final estimates presented, *viz.*, average annual earnings through a working lifetime, gross total of these earnings, and the present value of these earnings, are in themselves insufficient guides, even as far as the income aspect of vocational distribution is concerned. The authors recognize some of these limitations, not only those caused by inadequacy of data and reflected in the indicated large margins of error, but also those arising from the inadequacy of the averages and global totals (even when qualified by an indication, provided in most cases, of the quartile values of the income distribution). Some occupations allow leisure and opportunity for earnings from other activities; other occupations allow no such remunerative secondary activities. In some occupations there is a high relative turnover in the upward direction, *i.e.*, a large proportion of individuals entering the occupation leave it for more remunerative pursuits; in other occupations the turnover may be equally large but downward; in still others the relative turnover may be small. In some occupations there is considerable stability over time in the earnings of the various distinguishable sub-groups; in others the earnings may be subject to considerable temporal changes. Some occupations impose an urban living pattern upon their practitioners, whereas in others a substantial group may be living in smaller cities and villages, with the result that the same money earnings for the two occupations may denote significant differences in real income.

All these factors are important in considering the income aspect of vocational choice and occupational distribution; and while some are mentioned, none has been treated adequately. But most important, planning for the future, which is what the authors have in mind, has to be based upon an estimate of life earnings *expected* in the future, not upon the present value of past earnings. And though such an estimate of the future is doubtless difficult, the only way of attaining it is through a full analysis of all the aspects of variation in past earnings, *i.e.*, through the study of occupational earnings distributed according to years in occupation, specialization, location, economic conditions, numbers, character of demand, etc. The totals and the averages presented in the volume appear, consequently, to be of secondary importance as compared with the detailed tables and references to the underlying data.

But when one views the book as a compilation of information on income by occupations, even if confined to the professions and to averages and distributions by years of experience, it appears to combine considerable attainments with rather striking defects. Great labor has been spent in gathering every available sample and bit of information; and some of these

are so meager as to be scarcely worthy of attention. But on the other hand, there are surprising omissions. For dentistry and medicine the two volumes by Dr. Maurice Leven, which contain the most exhaustive study of income distribution in the two fields, were completely overlooked. For engineering, the valuable study of the earnings of mechanical engineers made by the Society of Mechanical Engineers for 1930 and prior years has been overlooked. Finally, one may question the wisdom of omitting completely the incomes of accountants in public practice, a professional group of some importance for which data are at least as ample as for some other occupational groups discussed in the book.

There is also a disturbing carelessness in describing some of the samples that are referred to. The study by the National Bureau of Economic Research of incomes from professional practice, which has been conducted by the present reviewer, is described throughout as based upon original data, whereas it represents only a further analysis of the questionnaires collected by the Department of Commerce in connection with the latter's study of national income. Data from returns by individuals to state income-tax offices are cited along with those collected by special sample surveys, without emphasis on the fact that the former include usually all earnings (not only from the occupation) but cover only the upper income ranges, whereas the latter cover income from occupation only and are rarely subject to as much of an upward bias as are income-tax data. Information on the total numbers in each occupation in the country is rarely provided so that a reader is not given the opportunity of judging the relative size of any sample cited.

These defects do not bar the use of the book by students aware of pitfalls of sample data and habituated by experience to look twice at a figure before accepting it. The importance of measuring earnings by occupations and the paucity of data are apparent to all workers in the field. To them Professor Clark's volume will prove a useful, even if at times, an exasperating guide. But it is to be regretted that its limitations lower so greatly its value to that larger body of parents, teachers, vocational counsellors and others to whom the book is addressed.

SIMON KUZNETS

*National Bureau of Economic Research*

NEW BOOKS

ARNDT, P., SHEN, D. and LO, C. -F. *Der Arbeitslohn in China*. (Leipzig: Hans Buske. 1937. Pp. xii, 352. RM. 9.)

This book consists of what seem to be doctoral theses written by two Chinese students in Frankfurt on the Main and of a long introduction by their professor, Dr. Arndt. Dr. Arndt is a former liberal, who now expresses his approval of the economic doctrines of National Socialism (p. 33). According to him China in the third century B.C. abolished feudalism and became a so-

ciety without estates or social classes, "early liberal" in character (pp. 39 and 60). From the data supplied by his pupils Dr. Arndt concludes that the law of productivity shapes the standard of Chinese wages inside this society. We cannot deal here with his misconception of China's post-feudal society, a society which really remained stratified after 221 B.C. both professionally and socially. His thesis about wages based on achievement (*Leistung*) is unfortunately not supported by concrete data on the achievement of the various branches of industry which the descriptive sections of the book mention.

Dr. Shen contributes a general outline of China's economic conditions, based largely on non-Chinese writings before 1923. He devotes only 12 out of 110 pages to concrete information about Chinese wages (pp. 169-181), and that includes data on the salaries of officials and scholars and on land rent paid by tenants. He reckons tenants, artisans, and small peasant owners in the category of workers. Consequently 72.8 per cent of China's population are "workers" (pp. 131 and 133).

Dr. Lo theoretically follows the same classification. He puts the percentage of workers in China as high as 81 (p. 291). In his analysis, however, he confines himself to what economists generally think of when using the term: to workers of industry, mining, and communications plus "coolies." Agricultural labor is mentioned, but not dealt with in detail. Dr. Lo treats the wages of these groups historically and according to variations caused by difference in occupation, sex, and region. His material is comprehensive, his political attitude critical. The deterioration in industrial and labor conditions is ascribed in large part to intensified Japanese pressure.

KARL A. WITTFOGEL

BALDERSTON, C. C. *Profit sharing for wage earners*. (New York: Industrial Rel. Counselors. 1937. Pp. viii, 156. \$2.)

This book makes a distinct contribution to the literature on the subject by listing every company in the United States known to have or to have had a profit-sharing plan, showing the size of bonus and basis for bonus payment by each. A similar list is made up for British companies.

The author takes a very sober view of the realities in this field and is far from being enthusiastic over profit sharing. He points to the high mortality of profit-sharing plans both in Great Britain and in this country, and the small extent to which they have been adopted in the first place. Only 186 companies were revealed to have such plans in the United States by the survey conducted by the author. Of the 144 for which information was secured only 67 plans were still in use in 1937. This number does not include companies in which employees are given the opportunity to own stock. Of the 88 companies, covered by the survey, which announce a definite formula for distributing profits, only 29 were found still in active operation.

Although profit sharing looks attractive and most fair at first glance, it soon brings disappointment to both sides. The trade union regards it "as a trap to keep workers from organizing." The workers become suspicious that it is a scheme to induce them to accept rates of pay below the prevailing market level (p. 17).

The employer discovers that "profit sharing fails to act as an incentive because the basis of payment is too far removed from the daily work and performance of the participants" (p. 10). Although the general scheme can be made clear, it is difficult if not impossible to get a body of workers to

grasp "the details of the distribution of the fund among the eligible participants . . . and the accounting problems incident to the determination of the net profits figure on the profit and loss statement" (p. 11).

It certainly falls far short of piece work as a direct incentive to greater effort. Nor should it be used, in the author's opinion, as a device to keep the workers out of the union.

The great weakness of profit sharing is the drying up of profits in depression years with consequent disappointment to the workers. Professor Balderson is, therefore, opposed to immediate payment of profits earned during the year, but advocates their being "placed in a fund to be used primarily to further employee security" (p. 60) such as for unemployment and sickness relief, to supplement the payments which will be very slender under the Social Security act for many years to come.

N. I. STONE

CLARK, M. R. and SIMON, S. F. *The labor movement in America*. (New York: Norton. 1938. Pp. 208. \$2.)

For some years there has been needed a timely successor to Mary Beard's *Short History of the American Labor Movement* (1920). Miss Clark and Miss Simon have possibly designed their book to meet this need, and, as writers of a general sketch for popular consumption, have taken their place in the chronological sequence of "short histories."

By way of making the book brief and readable, the author has indulged in a volume of unduly broad generalizations. Typical of these sweeping statements is: "Labor's thinking underwent rapid and far-reaching change in the first two years of the Roosevelt Administration" (p. 148). Some of these broad assertions contain implications dangerous to the scholarly reputation of the authors, as, for example: ". . . after the Civil War . . . the factory became the controlling element of the country" (pp. 29-30). Numerous erroneous or misleading statements appear as a sacrifice to brevity, as: ". . . the workers soon found that the minimum wages set by the NRA became in a very short time the maximum wages for a vast majority of the employees in any industry" (p. 144; reviewer's italics), and the statement that the Kansas Industrial Court act was "declared unconstitutional" (p. 111). These examples are typical of many others throughout the book. The need for brevity in a popular history is apparent, but readers might be spared a wholesale barrage of half-true generalities.

The usefulness of the book is further handicapped by the total absence of documentation and bibliography. If the students and workers to whom it is addressed were to benefit greatly by it, they would need the references which are unfortunately omitted.

WILLIAM S. HOPKINS

COLE, G. D. H. *A short history of the British working class movement, 1789-1937*. (London: Allen and Unwin. 1937. Pp. xxvii, 192, 211, 237. 12s. 6d.)

EDWARDS, A. M. *A social-economic grouping of the gainful workers of the United States*. (Washington: Supt. Docs. 1938. Pp. vi, 264. 25c.)

Statistical tabulations showing the distribution of gainful workers in 1930, in 13 cities having 500,000 inhabitants or more. The workers are classified by sex, color and nativity.

GIBBONS, C. E. and STOKES, B. *Child labor in the tiff mines*. Pub. no. 373. (New York: Nat. Child Labor Committee. 1938. Pp. 31. 25c.)

- GLÜCK, E. *Introduction to American trade unionism, with supplement.* (New York: Affiliated Schools for Workers. 1937. Pp. 104. 35c.)
- GRAY, E. M. *The weaver's wage: earnings and collective bargaining in the Lancashire cotton weaving industry.* (Manchester: Univ. Press. 1937. Pp. xi, 69. 5s.)
- HASS, E. *John L. Lewis exposed.* (New York: N.Y. Labor News Co. 1937. Pp. 69. 10c.)
- HEALEY, J. C. *Labor problems of the American merchant marine.* Reprinted from *Marine Progress.* (New York: Merchant Marine Pubs. 1937. Pp. 24. 20c.)
- HENIG, H. *The Brotherhood of Railway Clerks.* (New York: Columbia Univ. Press. 1937. Pp. 300. \$3.)

Professor Henig has written an excellent study of one of the best of our American unions. He takes up in successive chapters the early history of the Brotherhood, its functioning under federal war-time control of the railroads, wage negotiations and arbitration cases, grievances, rules and working conditions, collective bargaining under the federal laws, jurisdiction, membership and coverage, the union's social and industrial program, and its government and finance. There are a series of valuable appendices which give the first system agreement negotiated by the union, an interesting study of jobs and duties of representative employees under the Brotherhood's jurisdiction, the Brotherhood's membership, and wage data. The volume concludes with a useful selected bibliography and a brief index.

On page 182 Professor Henig declares that railway employees are by and large skilled craftsmen to whom industrial unionism makes little appeal. Though craft work predominates on the railways, there are various unions of workers including a large number of skilled craftsmen which are yet industrial in character. The Amalgamated Clothing Workers and the International Ladies' Garment Workers are excellent examples. Furthermore, when one bears in mind that the clerks claim jurisdiction over a wide range of occupations, one can hardly say that it is a technical craft union. Thereafter Professor Henig declares that railway employees "join unions not for revolutionary purposes but to receive some degree of wage and job control," the implication being that industrial unions are likely to be revolutionary-minded. There is plenty of evidence, of course, to the effect that such is not the case.

Much would be gained for an understanding of the American labor movement if studies as thoroughgoing and excellent as Professor Henig's were made of every important union in the country.

EDWARD BERMAN

- MCCABE, D. A. and LESTER, R. A. *Labor and social organization.* Econ. and soc. institutions, vol. vi. (Boston: Little Brown. 1938. Pp. viii, 374. \$1.20.)
- METCALF, H. C., editor. *Collective bargaining for today and tomorrow: approach and method.* (New York: Harper. 1937. Pp. x, 182. \$2.25.)
- NICHOLS, E. R. and LOGAN, J. W., compilers. *Arbitration and the National Labor Relations Board.* Ref. shelf, vol. 11, no. 7. (New York: Wilson. 1937. Pp. 345. 90c.)
- RUCKER, A. W. *Labor's road to plenty: the return to the American system of productivity.* (Boston: Page. 1937. Pp. xxii, 221. \$2.50.)
- SCHMIDT, E. P. *Industrial relations in urban transportation.* (Minneapolis: Univ. of Minnesota Press. 1937. Pp. xii, 264. \$3.)
- SEIDMAN, J. *Shall strikes be outlawed?* (New York: League for Industrial Democracy. 1938. Pp. 32. 15c.)

SOKOLSKY, G. E. *The labor crisis in the United States*. (New York: Wiley. 1938. Pp. 29. 25c.)

A program whereby collective bargaining may be effective and equitable, both for employee and employer.

STONE, R. W., editor. *Problems of collective bargaining*. Proc. of the 4th Midwest Conference on Industrial Rel. Stud. in bus. admin. vol. 8, no. 2. (Chicago: Univ. of Chicago Press. 1938. Pp. 93. \$1.)

WEHINGER, K. M. *Employers and their greatest asset*. (New York: Francis Emory Fitch, 138 Pearl St. 1937. Pp. 192. \$2.50.)

WEHLE, L. B. *Labor laws of the United States of America: a report to the Second International Congress of Comparative Law at The Hague, August 7, 1937*. (New York: Author, 50 Broadway. 1937. Pp. 24.)

WOLL, M. *Labor, industry and government*. (New York: Appleton-Century. 1938. Pp. 341. \$2.)

WOLMAN, L. *Union membership in Great Britain and the United States*. Bull. 68. (New York: Nat. Bur. of Econ. Res. 1937. Pp. 16. 25c.)

YODER, D. *Personnel and labor relations*. (New York: Prentice-Hall. 1938. Pp. xix, 644. \$5.35.)

This is the latest addition to an extended list of textbooks in the field of personnel administration. The scope of the book conforms to the traditional pattern. Job analysis, sources of labor supply, selection, education and training, industrial unrest, hours of labor, service rating, wage plans, wage policies, promotion and transfer, industrial health, employee morale, causes of unstable employment, employment stabilization, employee representation, collective bargaining, and service functions are the specific problems which claim the author's attention. Three chapters represent a departure from the usual text in this field—namely, chapter 4, "Simple statistical tools for personnel analysis," chapter 22, "Personnel administration in the public service," and chapter 24, "Research."

The author approaches his study with recognition of the fact that labor relations in the United States are in a state of rapid, perhaps revolutionary change. Instruments of control, like points of view, may have to undergo continued modification to meet the demands of new situations. The expansion of militant unionism, the invasion of mass-production industries by union forces, the political aspirations of modern labor movements, and the extension of legislation to establish minimum standards of employment are some of the factors making for changed attitudes and policies in personnel management. The author sees in growing class consciousness a new factor in labor relations and points out that in the future personnel policies will have to be shaped in terms of the group rather than the individual. In his treatment of particular personnel problems, however, he necessarily deals with employees as individuals.

The treatment throughout is descriptive rather than analytical. There is generous and competent use of the statistical method, which is the distinguishing feature of the book. Statistical tables, charts, and graphs are used profusely as illustrative material. These add greatly to concreteness and clarity of presentation. Appended to each chapter is a series of exercises and problems, and a list of collateral readings. Miscellaneous appendices on sources of statistical data and the National Labor Relation act are also given.

GORDON S. WATKINS

*Automobiles—jobs*. Statement submitted by Automobile Manufacturers Assoc.,

- Jan. 6, 1938, to Special Senate Committee to Investigate Unemployment and Relief. (Washington: Automobile Manuf. Assoc. 1938. Pp. 15.)
- Bread and butter politics: the Labour Party in Parliament.* (London: Labour Pubs. Dept. 1d.)
- British unemployment policy: the modern phase, since 1930.* (London: Longmans Green. 1938. Pp. 136. 7s. 6d.)
- Child labor facts, 1938.* (New York: Nat. Child Labor Committee. 1938. Pp. 34. 25c.)
- Generalisation of the reduction of hours of work.* Part iii. *Coal mines.* 24th sess., rep. v. (Geneva: Internat. Labour Office. 1938. Pp. xi, 223.)
- Labor under the "isms."* (Chicago: Transportation Assoc. of America. Pp. 48.)
- National Employment Commission: final report, 26th January, 1938.* (Ottawa: H. M. Stationery Office. 1938. Pp. 110. 25c.)
- Report on phases of employment conditions in Canadian industry.* Prepared through the coöperation of Canadian Employers by the National Employment Commission. 1937. Pp. 67. 50c.)
- The worker in the automobile industry.* (Detroit: Internat. Union United Automobile Workers of America. Pp. 19.)
- The United States, League of Nations and International Labour Organisation during 1937.* Geneva stud., vol. ix, no. 1. (Geneva: Geneva Res. Centre. 1938. Pp. 72.)

### Money, Prices, Credit, and Banking

*The Massachusetts First National Bank of Boston, 1784-1934.* By N. S. B. GRAS. (Cambridge: Harvard Univ. Press. 1937. Pp. xxiv, 768. \$5.00.)

Rarely is it possible in the United States to record the uninterrupted history of a single business concern for a period of one hundred and fifty years. The Massachusetts Bank, however, offered just such an opportunity. Chartered in 1784 by the state of Massachusetts, converted into a national bank in 1865, and combined in 1903 with the First National Bank of Boston, whose name it took, this venerable institution has been in continuous operation throughout our history as a nation. The present volume by Professor Gras is a painstaking and scholarly account of the Bank's organization, growth, temporary decline and eventual rise to primacy in New England. The author has searched through the Bank's own books, principally directors' records from 1784 to 1865, and directors'-stockholders' records from the latter date to 1900. After 1900, however, reliance had to be placed mainly upon outside sources of information. Not only has Professor Gras made diligent use of the above and other manuscript material, but he has made much of it available for other scholars by printing it in the second part of his volume.

The author's own historical account constitutes Part 1 (205 pp.) of the volume. Part 2 (326 pp.) is composed of documents from the Bank's records, covering the years 1784-1865. In the main these consist of extracts from the directors' records. Part 3 (217 pp.) contains statistical material for the same period.

In the belief that emphasis upon administration provides the nearest approach to reality in history, Professor Gras undertook to study the Bank in operation rather than in its constitutional aspects. It was, he says, the policy of stockholders and directors and the actual management by officials that received his chief attention. He has adhered to this purpose in his running account of the history of the Bank. Unfortunately the material at his disposal made it possible for him to construct little more than a bare skeleton unadorned by flesh and blood. The terse minutes of directors' meetings indicate the policy decided upon but contain little or no information as to the reasons motivating the decisions. If the minutes of directors' meetings had contained a résumé of the discussion preceding the adoption of resolutions, or if the correspondence of the Bank had been available to the author, doubtless a much more intimate insight into the banking problems and policies of various periods in our history might have been obtainable. As it was, however, resort to inference in most cases was necessary in explanation of the policies pursued.

Moreover, the author has made little attempt to orient the policies of the Massachusetts Bank through an analysis of the problems affecting the American banking system as a whole. The result is that, while the facts with reference to this particular bank are carefully presented, no important additional light is thrown upon the general course of American banking development. Undoubtedly the most valuable part of the study is that dealing with the early years of the Bank's history. Our knowledge concerning banking in these years is so fragmentary that the addition of the available material contained in the running account of Professor Gras and in the documents that he has published must be very welcome to students of American banking history. Even if this material induces no startling changes in our previous ideas, it tends greatly to enhance the realism of those ideas.

WILLIAM O. WEYFORTH

*Johns Hopkins University*

*World Prices and the Building Industry.* By GEORGE F. WARREN and FRANK A. PEARSON. (New York: Wiley. 1937. Pp. v, 240. \$3.50.)

This book is essentially two separate monographs under one cover. Part I of the work, together with the appendix (designated as Part III) has as its central feature the presentation of a valuable new set of index numbers of wholesale prices of 40 basic commodities in each of 14 countries, mostly from 1910. Part II, entitled "Business cycles," deals mainly with cycles in the building industry, but at the end develops more fully than earlier works by the same authors their concept of business cycles as resultants of a few mainly uncorrelated cyclical tendencies.

The relations in the minds of the authors between the two main parts

of the work are suggested by the opening sentences of Part II: "The most important single business indicator is the index of prices of basic commodities. The second most important is the building cycle."

A considerable portion of Part I is devoted to presenting facts and ideas which have been stated elsewhere by the same authors:<sup>1</sup> the relations, and certain significant discrepancies, between changes in prices of basic commodities as a group and changes in other groups of prices, wages, and the cost of living; the part played by general price-level influences in price fluctuations of individual commodities; and the causes of fluctuations in the value of gold.

The principal new material in this part of the work is a set of index numbers regarding which the authors say:

In order to provide approximately comparable index numbers for different countries, monthly index numbers were prepared for 40 basic commodities for 14 countries. The same weighting was used for all countries, and a weighted average for 7 of these countries was used to represent the world price level. The 40 commodities include the major foods and industrial materials that are the basis of most of the world's business. Index numbers were calculated in currency and in gold (p. 18).

Comparison of the course of prices of basic commodities in the several countries leads the authors to observe:

In spite of the violent differences in prices in currency, in spite of all attempts to control exchange rates and gold movements, in spite of blockades, tariffs, and bounties, and in spite of rigorous activity of food administrations, prices of 40 basic materials in various countries in gold differed by only as much as shown in Figure I.

Others, viewing the data from a different standpoint, may find some of the disparities more noteworthy than the degree of correspondence. Whatever the features regarded as worthy of emphasis, these index numbers provide a basis for certain international price comparisons superior to any previously available. The following tabulation of index numbers for selected countries and years, all on the base of 1910-14 = 100, affords a convenient sample.

	1918	1922	1928	1933
Australia	175	146	157	67
United States	213	144	144	65
England	253	151	138	63
Netherlands	319	151	133	63
Italy	354	131	139	84
France	287	144	128	79
Germany	154	100	132	—

The index numbers of prices in terms of gold are necessarily derived from price quotations in currency. Conversion to the gold basis is made

<sup>1</sup> See especially their *Prices*, 1933; and *Gold and Prices*, 1935.

through index numbers of currency prices of gold. These are given monthly for each of the 14 countries except Bulgaria, for which the information assembled is incomplete. The appendix in which these index numbers are presented includes for each country a statement of the actual or effective gold content of the currency unit at times when the country was on a gold standard, and detailed notes on changes in the monetary standard. This portion of the work is carefully documented and should prove especially valuable for reference.

More than one-third of the second part of the book is devoted to presentation of data on variations in construction activity. Some of the statistics assembled date from 1830 for the United States, 1785 for England and Wales, 1863 for Scotland, 1844 for Germany, 1870 for The Netherlands, and 1865 for Canada. In the main the data are drawn from the work of other investigators. The authors make a notable contribution in assembling and summarizing this scattered material. In addition, they present some original material, including a compilation of information on the dates of construction of prominent office buildings, hotels, and other large structures in New York City and in Chicago.

The authors devote only brief scattered comments to explanation of the occurrence of cycles in building activity. Having presented the data showing fairly regular recurrence of such cycles through many decades and in a number of countries, they pass to examination of relations between building and other economic phenomena. Activity in building construction seems to have a considerable bearing on the business and revenues of railways, and on extension of mileage and other railway expenditures for other purposes. Directly and indirectly building activity has a strong influence on activity in the iron and steel industry. Building activity perhaps has a reflection in shipbuilding, although the record may strike many readers as not fully warranting the authors' statement that "the tonnage of vessels built fluctuates with the building cycle" (p. 136).

Among all the statistical series compared with the indices of building activity in the United States, those which appear to the present reviewer to show the closest correspondence with building activity are the indices of bank loans and discounts and of interest rates on prime commercial paper. Loans and discounts are judged by the authors to follow changes in building construction with a lag of about 3 years. The time relation has varied rather widely, however, and it appears worth suggesting that further study of the causal relations involved might prove illuminating. Interest rates show comparatively large fluctuations extending over 1-3 years which appear uncorrelated with building activity, but apparently a 3 or 5-year moving average of interest rates would show an extraordinary degree of correspondence with the index of concurrent building activity in the United States during 1830-1916. As regards the main cyclical fluctuations, apart from

the period 1917-1928, interest rates have uniformly been low when building activity was low, and high when building was active (p. 144).

Two short closing chapters develop the authors' view of the causes of cyclical fluctuations in business, and present illustrative examples of the combination of effects of specific cyclical tendencies and of changes in the price level on particular economic activities.

The first of these two closing chapters may prove the most significant part of the book for the development of economic thought. The authors hold that to gain satisfactory understanding of business cycles it is essential to regard the whole of business activity as the sum of a number of components, and to study separately the behavior of the principal components. Implicit in this doctrine is the view that the effects of factors common to the several elements in the total are much less important than the factors which affect chiefly certain segments of the whole. If this view is sound, the authors are warranted in their opinion that most students of the business cycle have been following comparatively unprofitable lines of attack on the subject (p. 154). In support of their view of the nature of business cycles and of the generating influences, Warren and Pearson bring together here a body of evidence which calls at least for careful consideration.

HOLBROOK WORKING

*Food Research Institute*  
*Stanford University*

*Monetary Reform in Theory and Practice.* By PAUL EINZIG. (New York: Macmillan. 1937. Pp. xvi, 343. \$4.00.)

Although the title of this book conveys the impression that it contains much of a theoretical nature, the reader will find but little of abstract reasoning and speculative generalization. The interest of Dr. Einzig seems definitely to be in specific reform proposals and even more definitely in the reform movement as a whole. He decries the spirit of sectarianism among the advocates of reform, expresses belief in the possibility of working out an eclectic, practical program, and appraises the individual reform measures proposed in regard to how much each can contribute to such a program. The whole is presented against a background of rapidly moving world events and in a vivid, readable style. It is doubtful, however, if the general reader, to whom the book is primarily addressed, has in his vocabulary such expressions as "spot sterling," "gold-export point," "interest parity," and "forward sterling" (culled from one paragraph on page 189). The volume bristles with the technical terminology of foreign exchange and international finance, and there is no glossary of terms for the uninitiated.

Dr. Einzig is at his best in his denunciations of the "money cranks" of every variety. In this general category, he includes the ultra-orthodox as well as pseudo-scientific and unscientific money tinkerers. His criticisms are di-

rected not so much at the gold standard itself as at "the mentality that is associated with the operation of the gold standard." What is needed, he believes, is a managed currency based on gold and accompanied by general economic planning. Unless we have planned production and distribution, no monetary reform "can possibly safeguard the community against shocks and setbacks."

Although he believes "a change of parities is not something essentially desirable which should be resorted to light-heartedly at the slightest pressure," he makes a strong case against heavy sacrifices in defense of existing gold parities. He cites with approval those countries which ceased to maintain their parities when they were still technically in a position to do so and believes they have created an important precedent for future financial policy.

In way of negative criticism, not many psychologists will be convinced that there is any "instinctive preference for gold" (page 132); Professor Irving Fisher will modestly insist that he is not the originator of an elastic gold standard and will also doubtless refuse to accept as his the simplified system of monetary control ascribed to him; and students of American monetary history will be much surprised to learn that the issue of bimetallism "remained very much alive in the United States" throughout the first three decades of the twentieth century (page 218).

HAROLD W. GUEST

*Baker University*

#### NEW BOOKS

AFTALION, A. *L'or et la monnaie: leur valeur; les mouvements de l'or.* (Paris: Domat-Montchrestien. 1938. Pp. 124. 25 fr.)

ALLEN, A. M., COPE, S. R., DARK, L. J. H. and WITHERIDGE, H. J. *Commercial banking legislation and control.* (London: Macmillan. 1938. Pp. xi, 513. \$4.50.)

BAUDIN, L. *La monnaie.* (Paris: Lib. de Médicis. 1938. Pp. 218. 12 fr.)

This book is the first of a series on contemporary problems. The argument emphasizes monetary principles in relation to recent policies and experiences, especially in France and the United States. The free gold standard is vigorously defended against the criticisms of planners, money managers and currency cranks. The weaknesses of managed money and the fallacies of creating "purchasing-power" by monetary expansion and kindred nostrums of the day are exposed with precision and clarity. The "zigzagging, opportunistic policies" of President Roosevelt are cited (pp. 178-9) as failures of such notions in practice. The great efflux of gold from France in recent years is attributed to the fears of French savers regarding demagogic trends in French politics, social disorders such as sit-down strikes, heavy taxes for new social services and an unbalanced budget. Devaluation can achieve no permanent stability for the franc so long as these evils continue (p. 193). Particularly alarming from a monetary standpoint are the effects of the application of Marxist theories: the sharp reduction in the productivity per man-hour on the one hand and the flood of public expenditures on the other (pp. 195-203). Correction of mone-

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tary disorders is impossible so long as doctrines of the "class struggle" and economic nationalism dominate governments.

Governments, having prevented the operation of the gold standard mechanism, have then reproached the gold standard for not having functioned. The high tariffs of creditor countries have contributed to a world maldistribution of gold. (Professor Baudin's charge that the United States sterilized gold after the war is open to the rejoinder that to assume that no inflation occurred here in the 1920's, on the grounds that commodity prices failed to rise with gold imports, overlooks inflation in other areas.) Efforts of debtor countries to protect gold reserves by embargo and exchange control correct no disequilibria but rather maintain them. In recent years, however, gold has flowed to socially stable countries and away from nations menaced by war or socialism, illustrating that its function as a storehouse of value has become of increasing significance as its function as a medium of exchange has declined. The error of managed money theory lies in an incomplete conception of the quantity theory of money and in the illusion that anything can serve as money. "It is because gold has its basis in psychological factors, consolidated by custom, that its power defies attacks of pure reason. Man is a believing being. His traditions cannot be disregarded, for the evolution of mankind is a continuous process. Advocates of managed money lose grasp of reality in their abstract planning. . . . Gold remains and deserves to remain king." (Pp. 63-64.)

Stabilization of currencies on gold is necessary to calm the hypersensitivity of individuals as manifested recently in sharp movements of fear and hope. A balanced budget must precede monetary stabilization, although the latter would so revive business confidence that the budget would be more easily balanced.

American readers of this book cannot fail to be impressed by the many parallels between French and American monetary problems, trends and policies. Although France is farther down the road, American progress is in the same direction and, similarly, most rapid when downhill.

CHARLES C. FICHTNER

BJOSET, B., UTNE, H. J. and PALMSTRØM, H. *Fra krise til kredittkontroll*. (Oslo: Johan Grundt Tanum, 1937. Pp. 190.)

CURTIS, M. and TOWNSHEND, H. *Modern money*. (New York: Harcourt Brace, 1938. Pp. x, 291.)

DONALDSON, J. *The dollar: a study of the "new" national and international monetary system*. (New York: Oxford Univ. Press, 1937. Pp. xix, 271. \$3.75.)

Professor Donaldson has presented us with a brief, simple, and scholarly treatment of that period in our monetary history which began with the partial suspension of the gold standard early in 1933 and ended with the international monetary understanding in September-October, 1936. The method of treatment is that of combining the descriptive, the theoretical, and the empirical.

The author reviews the financial, economic, social and political forces and philosophies which brought about the monetary changes; enumerates the legislation in chronological order; sets forth the non-monetary measures that influence the price structure; outlines the federal reserve policy under the new Banking act; records the international arrangements; and explains the gold sterilization plan. He then describes the various monetary theories and the cycle theory in relation to money. He discusses the effect on the internal

economy in special reference to gold, currency, credit, prices, and the problems of credit and capital.

In the second part on international backgrounds and theories he discusses: the international background of the "new" dollar policy as its development was shown by the proposals of the Brussels and Genoa Conferences and the breakdown of the gold standard; the efforts of the gold delegation, the Lausanne Conference, the Commission of Experts, the London Conference, and the American position and currency blocs. This is followed by a treatment of monetary theory and international processes in relation to international prices, the flow of gold, the flow of goods, and the balance of payments.

In his treatment of the external and international economic effects he gives brief but careful attention to dollar exchange rates, prices, comparative national price and cost structures, foreign trade by countries, and the balance of international payments in gold, merchandise, service, and capital movements.

In his final chapter he summarizes the plan for international stabilization about which the United States, France, and Great Britain reached an understanding on September 25, 1936; outlines the steps taken by the gold bloc countries in adjusting their currency to this understanding; and points out that under the new world monetary system the old gold standard has not been restored and that the various countries, believing they have obtained some benefits under a flexible managed currency will probably desire a considerable amount of flexibility in the future.

He adds a 51-page appendix of statistical data.

The book is well written, and there are few, if any, debatable points. One might desire a more complete treatment of the price theories. The value of his acceptance and use of the velocity of goods theory in connection with his criticism of the Fisher formula of the quantity theory of money might be questioned, especially so in view of his lack of criticism of the other factors of the formula.

JAMES B. TRANT

DOUGLAS, P. F., editor. *Consumer credit*. Annals, vol. 196. (Philadelphia: Am. Acad. of Pol. and Soc. Science. 1938. Pp. 296. \$2.)

DUKE, W. K. *Bills, bullion, and the London money market*. (London: Pitman. 1937. Pp. 142. 5s.)

EINZIG, P. *Will gold depreciate?* (New York: Macmillan. 1937. Pp. xiv, 178. \$2.)

The high price of gold in recent years has resulted in a phenomenal increase in its visible supply from both dishoarding and new production. World gold requirements have also increased, but the supply and demand have not been synchronized. A disproportionate part of the gold has been absorbed by a few countries, particularly the United States. From this situation arises the question whether gold will depreciate, or more particularly, whether this country will continue to purchase and sterilize an ever growing surplus.

In favor of limiting purchases, it is argued that the sterilization of gold is costly, that the process by which it is done increases the difficulty and expense of other government financing, and finally, that this country's purchases of gold merely serve the convenience of the British Empire. Mr. Einzig admits that Great Britain, as the world's largest producer of gold, would suffer by a fall in its price; but this country, as the largest holder of gold, would also incur heavy loss. Any action by this country, therefore, should be based on a knowledge of the two sources from which our gold imports arise. That part resulting from our export surplus can be reduced or curtailed entirely if the

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country is prepared to lend the balances abroad, to accept foreign goods in payment, or to reduce its exports. The other part of the inflowing gold represents "hot money," that is, money sent to this country for safe-keeping or speculation. It does not constitute a net increase in the gold supply because of the obligation to repay it upon demand. Unless checked by appropriate legislation this gold should continue to be sterilized.

Another means of curtailing the inflow of gold is to reduce our buying price. Since this action would be deflationary and would be effective only on that part of the supply resulting from our export surplus, it is not likely to be adopted. A more desirable procedure, according to Mr. Einzig, would be to bring about international agreement to reduce gold output or export pending the adjustment of commodity prices to the new level of gold. But in the present state of international affairs such a plan offers little chance of success.

Mr. Einzig concludes, therefore, that gold is destined to appreciate in value. In positive support of this conclusion he points out that higher commodity prices will discourage gold production and increase gold requirements. They will alleviate budgetary deficits and ease the burden of public and private indebtedness. Furthermore, higher prices will be inevitable to finance the re-armament program now everywhere in progress. In all countries, industrial forces, such as the labor movement in the United States, are operating to induce higher commodity prices thus causing higher cost of producing gold. Finally, international events are working toward higher gold prices through competitive currency depreciation.

JAMES HOLLADAY

GAYER, A. D. *Monetary policy and economic stabilization: a study of the gold standard*. 2nd ed., rev. (New York: Macmillan. 1937. Pp. xv, 288. \$3.75.)

This volume is a revision of Dr. Gayer's earlier work of the same title (published in 1935) and covers the same ground, but it includes new material which is essential to this study because of events of the two years following the publication of the first edition.

Dr. Gayer attacks the problem first by contrast between the functioning of the traditional gold standard (chap. 1) and the post-war gold standard (chaps. 2 and 3). In the latter chapters he considers first the internal mechanism of the post-war standard followed by a thorough survey of the conditioning economic environment which deals chiefly with the inflexibilities of present-day price and income structures. The conclusion reached is that a modern gold standard would require a good deal of management to be successful.

Following this introductory material are chapters dealing in detail with gold and prices, gold economies, gold and the depression, and gold and paper standards. The final chapters of the book, containing Dr. Gayer's constructive suggestions, deal with alternatives in future monetary policy, monetary policy and public works, price stabilization and economic stabilization, and criteria for a policy of monetary stabilization.

In judging the merits of this study, it should be noted that Dr. Gayer is, apparently, a firm believer in a very considerable degree of monetary management. As such, he has done an excellent job of presenting an unbiased view of the various factors involved. He does not hesitate to consider carefully the undoubted difficulties which stand in the way of successful monetary management and hopes for nothing better than an improvement over the violent price fluctuations of recent decades.

Certain statements of the author seem open to criticism. One is the *ipse dixit* that "the United States found it necessary to abandon gold after all" (p. 177). There is good evidence for believing that, after the settlement of the banking crisis in 1933, a return to the gold standard would have been accompanied by a sounder and more durable recovery than occurred under the inflation policy which was actually followed. Another is the cavalier disposal of the qualitative credit doctrine, on page 261, where the author misunderstands the position of those favoring qualitative control of credit. Space is lacking in which to elaborate on a few other instances of the same sort.

In spite of criticisms such as these, the volume under review contains a good deal of valuable material and much sound analysis. Chapter 4, on "Gold and prices" and chapter 11, on "Price stabilization and economic stabilization," are particularly good examples of sound analysis. There is no question but that the book is well worth careful reading.

FREDERICK A. BRADFORD

GIDEONSE, H. D. *The commodity dollar*. Public policy pamph. no. 26. (Chicago: Univ. of Chicago Press. 1938. Pp. 22. 25c.)

VON HAYEK, F. A. *Monetary nationalism and international stability*. Pubs. of the Grad. Inst. of Internat. Stud., no. 18. (New York: Longmans Green. 1937. Pp. xiv, 94. \$2.)

KINDLEBERGER, C. P. *International short-term capital movements*. (New York: Columbia Univ. Press. 1937. Pp. xi, 262. \$3.)

The hot money problem today is international and has aroused considerable attention throughout the world. The present volume therefore meets a real need, but the book would have been of greater value if more attention had been paid to the practical side of the problem.

The first nine chapters deal with what is termed normal movements of short-term funds. Here the author presents a great many facts and theories concerning the movement of short-term funds, the transfer problem involved, the causes of the movement and the effects which it has on the money market. The abnormal capital movements which deal to a large extent with the present situation, are described in only one chapter. A more elaborate discussion of this phase would have been desirable and helpful. In his analysis, the author considers repayment of long-term loans by debtors to creditor countries as an abnormal movement. Yet it is doubtful whether all those who have studied this problem will agree. Thus, during the past two years, Canada and the Argentine Republic repaid a portion of their long-term loans, and this was generally considered a normal development in spite of the fact that the funds moved to countries where the rate of interest was lower and where the markets were flooded with capital.

Mr. Kindleberger gives an adequate description of the stabilization funds, their method of operation, and how they can counteract the effects of the movement of gold. On page 213, however, in describing the credit type of stabilization fund he states that this type of fund is in a position to prevent a decline in the value of the currency through the sale of foreign currencies or gold but does not explain where a stabilization fund, composed entirely of Treasury bills, will obtain the necessary foreign exchange.

On the whole, the book is well written, conveys a great deal of information, and dispels a number of existing erroneous beliefs generally held regarding the international movement of short-term funds. The book is not only well documented but also contains a useful bibliography. It should receive wide

attention not only among students of banking but also among banks and bankers transferring funds almost daily.

MARCUS NADLER

- MEADE, J. E. *Consumers' credits and unemployment*. (New York: Oxford Univ. Press. 1938. Pp. vii, 115. \$2.)
- MORGAN-WEBB, C. *Outlook for gold*. (London: Allen and Unwin. 4s. 6d.)
- O'NEIL, L. D. and DI VENUTI, B. *Visual outline of money and banking*. 2nd ed. (New York: Longmans. 1937. Pp. 92. \$1.)
- PEDERSEN, J. and PETERSEN, O. S. *An analysis of price behaviours during the period 1855-1913*. (Copenhagen: Levin & Munksgaard. 1938. Pp. 268.)
- RIST, C. *Histoire des doctrines relatives au crédit et à la monnaie depuis John Law jusqu'à nos jours*. (Paris: Recueil Sirey. 1938. Pp. 471. 90 fr.)
- RUCKER, A. W. *The thirty-year decline in commodity prices: when it began; what it means; how to cope with it*. Address to the Commodity Club of New York, Dec. 16, 1937. (New York: Eddy-Rucker-Nickels Co. 1937. Pp. 24. 25c.)
- WAGNER, J. *Die Preispolitik im Vierjahresplan*. Kieler Vorträge 51. (Jena: Fischer. 1938. Pp. 18.)
- WEBER, A. *Depositenbanken und Spekulationsbanken: ein Vergleich deutschen und englischen Bankwesens*. 4th rev. ed. (Munich: Duncker und Humblot. 1938. Pp. xviii, 402. RM. 16.)
- WESTERFIELD, R. B. *Money, credit and banking*. (New York: Ronald. 1938. Pp. xi, 1172. \$4.50.)
- WILKINSON, J. H., JR. *Investment policies for commercial banks*. (New York: Harper. 1938. Pp. xvii, 179. \$2.50.)
- Annual report of the Director of the Mint, fiscal year ended June 30, 1937, including report on the production of the precious metals during the calendar year 1936*. (Washington: Supt. Docs. 1937. Pp. 114. 60c.)
- Barclays Bank, Limited: report of the forty-third ordinary general meeting held on 20th January, 1938, and statement of accounts as of 31st December, 1937*. (London: Barclays Bank, Ltd. 1938. Pp. 29.)
- Federal Reserve act of 1913, with amendments and laws relating to banking*. (Washington: Supt. Docs. 1937. Pp. 299. 25c.)
- Nankai index numbers, 1936: of commodity-prices at wholesale, cost of living, foreign exchange rates, and quantities and prices of imports and exports*. (Tientsin: Nankai Inst. of Econ., Nankai Univ. 1937. Pp. xi, 48.)
- The Patman bill, H.R. 7230, which provides for government ownership of federal reserve banks and charges them with the responsibility of stabilizing the purchasing power of money: opinions of 36 members of the Economists' National Committee on Monetary Policy*. (New York: Econ. Nat. Committee on Monetary Policy. 1938. Pp. 32.)
- Prices in Canada and other countries, 1937*. Issued as a suppl. to *The Labour Gazette*, January, 1938. (Ottawa: H. M. Stationery Office. 1938. Pp. 23.)

### Public Finance, Taxation, and Tariff

*Personal Income Taxation*. By HENRY C. SIMONS. (Chicago: Univ. of Chicago Press. 1938. Pp. xi, 238. \$2.00.)

The author believes that income taxation is the proper means for mitigating inequality and that tax reform, with displacement of sales tax, custom duties, excise taxes and payroll levies in both federal and state tax systems

by progressive personal taxes, would enable us to move gradually but steadily toward better distribution. As a concession, he is willing to permit the indefinite continuance of real-property taxes (without change in the established effective rates), special assessments and the heavy taxation of gasoline. His chief contention is, however, that all gifts, inheritances and bequests should be treated as part of the recipient's taxable income for the year in which they are received—a project long ago proposed by the well-known German economist Georg Schanz but generally discarded in theory and practice in more recent times. In Mr. Simons' plan a supplementary personal tax should be levied upon the recipients of gifts, inheritances, and bequests to eliminate any advantage which might otherwise be obtained, under a progressive annual tax, by gradual distribution of property. At the same time the law should provide for full inclusion of all gains on assets which have appreciated in the owner's possession, the gains being taxable at time of *bona fide* sale or, at an amount determined by fair appraisal, on the occasion of any other disposition of the property.

Mr. Simons thinks that his system is as nearly fool-proof as possible and represents a proper solution of the gains and losses provision in an income-tax law. Unfortunately, his project does not solve this problem satisfactorily and in spite of numerous checks (in his scheme, the taxpayers are obliged to account for every acquisition and every disposition of property) leaves loopholes for evasion in appraisals, clandestine transfers, etc. It seems to me that the gains and losses problem can properly be solved only in an additional personal tax on capital.

Numerous long citations are given—all of them in German or French without an English translation—mostly from older economists. It is surprising that he does not even mention more modern writers in public finance, for instance, Professor Lampe of Freiburg who in 1934 made a similar but a much more convincing plea for a single income tax, or Professor Andrae who advocated the recurrence to taxes *in rem*. Instead, he often speaks of trivialities, *e.g.*, the case of a *Fluegeladjutant* who receives income in kind in form of free meals at the court of his sovereign. The author forgets the important modern requirement of a normal tax system that the taxpayer must be recipient of cash to be able to pay his taxes. Mr. Simons criticizes authors whose viewpoints do not fit his scheme (Seligman, Lotz, Fisher and others) with great harshness. In all probability, Mr. Simons' scheme is not likely to be adopted in actual legislation; and even his high initial rate of 20 per cent for married people with an income over \$2,000 is unable to balance the American public budget. However, sharing the proceeds from federal taxation with the states, advocated by him, is consistent with modern requirements.

PAUL HAENSEL

Northwestern University

## NEW BOOKS

ANDERSON, H. D. *Our California state taxes: facts and problems.* (Stanford University, Calif.: Stanford Univ. Press. 1937. Pp. viii, 305. \$2.75.)

The author has succeeded in making understandable and interesting to the average taxpayer a subject generally regarded as complex and uninteresting, without sacrificing accuracy of statement. Tax executives and other tax experts will find profit in this volume. The first chapter, "Services demanded of the state," shows the gradual expansion of state activities in response to necessity and popular demand, an expansion which in so many instances practically runs parallel with that of other states so that in chapters pertaining more particularly to California experiences the volume has value to non-California taxpayers. The chapters devoted to a discussion of the various taxes found in operation in California are also either in effect or their adoption contemplated in other states so that the volume should make a strong appeal to everyone interested in state taxation whether a Californian or not. The author has valuable chapters also on "Balancing outgo and income," "California's ability to pay for good government" and "Good and bad taxes." The final chapter is devoted to a critical discussion of the more important California tax programs in which the author does not hesitate to strike out vigorously against some of them, regardless of where the chips may fall, and in which he sets forth and discusses various constructive measures and proposals.

Those who believe taxes should be reduced, will find in this volume little to encourage them.

The book is well indexed and a short, well selected bibliography of both source and secondary materials is found at the close of each chapter.

O. J. MARSTON

BACHI, R., and others. *Problemi di finanza fascista.* (Bologna: Zanichelli. Pp. 350. L. 30.)

BOAK, A. E. R., editor. *University of Michigan historical essays.* (Ann Arbor: Univ. of Michigan Press. 1937. Pp. vii, 182. \$2.25.)

Contains an article on "Efforts to secure an Austro-German customs union in the nineteenth century."

CHU, P. *Der Staatshaushalt und das Finanzsystem Chinas.* Frankfurter wirtschaftswissenschaftliche Studien, Heft 2. (Leipzig: Hans Buske. 1937. Pp. 133. RM. 3:75.)

China's ability to rally her economic resources in her struggle to repel Japanese aggression is more understandable to us with the description of the framework of China's fiscal system. The material offered was heretofore available only in Chinese, official documents or scattered sources.

Chinese finance is largely provincial. Yet the finances of the provinces are only briefly mentioned. The centralization portrayed is unduly prophetic. Also the historical development of some factors, especially China's foreign debts, seems to be overstressed. Of greatest interest is the analysis of the taxes collected by the central government. The character of the levies, chiefly on imports, consumption and traffic, show clearly the stage of fiscal development. Reminiscent of our own early tax history is the discussion of China's tax on the note-issuing privilege of provincial banks. Budgetary and administrative problems are not treated. Dr. Chu's closing wishes are that China obtain the blessing of a Nazi economy. His book is published in Leipzig.

J. WILNER SUNDELSON

- COLM, G. and LEHMANN, F. *Economic consequences of recent American tax policy*. Suppl. 1. (New York: Social Research. 1938. Pp. xii, 108. \$1.)
- CORNICK, P. H. *Premature subdivision and its consequences: a study made for the State Planning Council of New York of the premature subdivision for urban purposes of outlying lands in selected metropolitan areas of New York State*. (New York: Inst. of Public Admin. 1938. Pp. xxi, 346. \$1.50.)
- CYR, F. W., BURKE, A. J. and MORT, P. R. *Paying for our public schools*. (Scranton: Internat. Textbook Co. 1938. Pp. x, 197.)
- FETTER, F. W. *The New Deal and tariff policy*. Rev. ed. Public policy pamph. no. 7. (Chicago: Univ. of Chicago Press. 1937. Pp. 31. 25c.)
- HOON, E. E. *The organization of the English customs system, 1696-1786*. (New York: Appleton-Century. 1938. Pp. ix, 322. \$4.)
- KROUT, J. A. editor. *Expenditures of the federal government*. Proc. vol. 17, no. 4. (New York: Acad. of Pol. Science. 1938. Pp. 147. \$2.50.)
- MALONE, P. E. *The fiscal aspects of state and local relationships in New York*. (Albany: State of N.Y. Dept. of Taxation and Finance. 1937. Pp. xiv, 433.)
- ROSENDORFF, R. and HENGGELE, J., editors. *Das internationale Steuerrecht des Erdballs nebst sämtlichen Abkommen zur Vermeidung der Doppelbesteuerung*. Band I—III. (Zürich: Verlag f. Recht u. Gesellschaft. 1936. 1936/37. 1937. Pp. xxv, 685; 689-1398; 1399-2059. 50 fr.)

If this work turns out to be useful for tax practitioners and victimized taxpayers, as is the reasonable hope of its promoters, it will be for some other reason than its brevity. The 2,059 pages under review comprise only the first part of the work, in three ponderous loose-leaf volumes, covering the countries of Europe. A second part, covering the rest of the world, is expected.

The part of the book so far published explains the law of taxation in the countries of Europe in such detail as to instruct in and facilitate avoidance of such multiple taxation by two or more countries as would arise under national tax systems existing today. To this end are presented, not only the statutory tax provisions under which the discriminatory taxation arises, but also the treaties, chiefly bilateral, that have been concluded for the purpose of eliminating or mitigating the severity of the objectionable taxation, the texts of the treaties to 1936 being printed in full in the appendix.

The work has been prepared largely by collaborators in the respective countries, mostly tax administrators in high office. They have contrived to write in a simple style, to avoid much of the monotony that so easily afflicts works of much detail. They have attempted little tabulation, except such as is used in showing tax-rate schedules. The publication is in fact more like an American "tax service" than anything else; and this likeness is emphasized by its loose-leaf binding, which permits the promised service to keep the information currently accurate. It caters primarily to a special clientele, those who are likely to be afflicted by discriminatory multiple taxation in two or more countries.

Like the *American Tax Systems of the World*, it concentrates on the home country, as is suggested by the space allotments to each country. Of the more than 1,700 pages of textual matter, over 1,200 are printed in German, covering 21 countries. Of this allotment the German Reich takes 396 pages, the closest second being Switzerland with 102 pages. France and eight other countries, mostly small, are covered in French; the United Kingdom and the Irish Free State, in English; and Italy, in Italian. The emphasis upon the two first mentioned countries is hardly justified by the peculiarities in their position, although the reasons for it may be good and practical.

Little attention is devoted to theories and principles. The norms of international taxation accepted in the introductory section are those developed by fiscal experts, such as—to cite only one familiar in America—Professor Seligman's *Double Taxation and International Fiscal Coöperation*. For all that, the detailed treatment of specific problems in particular locations might well be taken seriously, not only by harrassed victims of multiple taxation, but also by legislative bodies, should there be any such, seeking to develop national tax systems in conformity with international comity.

JENS P. JENSEN

ROZMAN, D. and SHERBURNE, R., compilers. *Analysis of receipts and expenditures of state, county, and municipal governments in Massachusetts*. Spec. circ. no. 17, rev. (Amherst: Massachusetts State Coll., Extension Serv. 1938. Pp. 22, mimeographed.)

SHENEFIELD, H. T. *Land value manual, Lucas County, Ohio, 1937*. (Toledo: County Auditor of Lucas County. 1937. Pp. 63.)

———. *Real estate assessment manual, Lucas County, Ohio: system of rules, standards and methods employed in the assessment of real property*. (Toledo: County Auditor of Lucas County. 1937. Pp. 100.)

SINHA, K. B. C. *Debt legislation in Bengal*. (Calcutta: Chatterji. 1938. Pp. 40. Re. 1.)

VAN SANT, E. R. *The floating debt of the federal government, 1919-1936*. Stud. in hist. and pol. sci., ser. lv, no. 4. (Baltimore: Johns Hopkins Press. 1937. Pp. 88.)

This is a clear and concise monographic treatment of short-term financing by the government of the United States since 1918. The findings of the author substantially endorse the essays by Professor Hollander who published his volume on the previous period of "war borrowing" in 1919. In the final chapter the author discusses his subject matter under the following headings: floating debt and the money market; cost of government borrowing; holders of short-term obligations; short-term securities as equalizers of the market at tax-payment dates; floating debt and the banking system; floating debt as a bank asset; floating debt in open-market operations; floating debt and inflation.

*Annual report of the Commissioner of Internal Revenue, fiscal year ended June 30, 1937*. (Washington: Supt. Docs. 1937. Pp. viii, 167. 20c.)

*The Costigan amendment, using federal income tax returns in the administration of local property taxes*. Bull. no. 18. (Chicago: Nat. Assoc. of Assessing Officers. 1938. Pp. 22. 50c.)

*Customs and excise: twenty-eighth report of His Majesty's commissioners for the year ended 31st March, 1937*. (London: H. M. Stationery Office. New York: British Lib. of Information. 1938. Pp. 219. \$1.10.)

*Inland revenue: eightieth report of His Majesty's commissioners for the year ended 31st March, 1937*. (London: H. M. Stationery Office. New York: British Lib. of Information. 1938. Pp. 72. 45c.)

*Orientación económica de la política aduanera argentina: nota a la honorable cámara de diputados de la nación sobre el adicional aduanero del 10 por ciento*. Studio de problemas no. 48. (Buenos Aires: Confed. Argentina del Comercio, de la Industria y de la Producción. 1937. Pp. 11.)

*Sales tax laws, western states: the full texts of the sales, use and gross income*

*tax laws of the states west of the Mississippi, as of July 1, 1937.* (Chicago: Commerce Clearing House. 1937.)

*Tax systems of the world: a year book of legislative and statistical information including all the states of the United States.* By the TAX RESEARCH FOUNDATION. 7th ed. (Chicago: Commerce Clearing House. 1938. Pp. 415.)

This comprehensive volume contains data and charts as follows: (1) charts of all the important tax systems of the world; (2) condensed histories of taxation in the more important jurisdictions (this section is waiting for the invention of a sufficiently condensed form of presentation); (3) charts of the tax systems which leading authorities think we should have; (4) similar charts of the tax systems which the various taxable groups such as the public utilities, the banks, the real-estate interests, the farmers and organized labor, desire us to have; (5) the complete terminology of a model state-and-local tax law to be offered for the consideration of the various American legislatures; (6) the world's total annual tax bill showing the amounts raised by the different taxes in each country and in each state; (7) a comprehensive series of status tables showing in immediately comparable form the more essential tax facts in the various states; (8) tables showing the corresponding information relative to the tax systems of the various national governments throughout the world; (9) the principles of taxation stated in summary form; (10) tables showing the tax burdens on various imports in the different countries; (11) a section devoted to the best methods of administration of the various taxes including standardized forms; (12) an assessors' manual for arriving at the taxable valuation of lands and improvements; (13) the key language of the key decisions.

### Population and Migration

*Population Pressure and Economic Life in Japan.* By RYOICHI ISHII. (Chicago: Univ. of Chicago Press. 1937. Pp. xix, 259. \$3.00.)

The method which Dr. Ishii employs in his analysis of the population movement in Japan suggests that he is deeply aware of the deceptions which necessarily follow a pragmatic approach to the subject matter. From the outset, instead of concentrating upon population statistics, Dr. Ishii unfolds in a brief but penetrating analysis the dynamics of Japanese economic life. The temperate-subtropical climate and the system of small farming are shown to be the basic contributive factors to Japan's density of population. The expansion of Japan's population in the seventeenth century is related to the rehabilitation of agricultural land in the early Tokugawa Era. Infanticide and abortion developed as concomitants to the economic contraction of the following century. The increased demand for labor after Japan's initiation into the Western mode of industrial production compelled the government to suppress the accepted practices of family restriction. With the progress of industrialization Japan's population increased rapidly and steadily. The peak of this economic development was reached—as in other industrial countries—after the World War.

It is upon this historic-analytical presentation that Dr. Ishii bases his more

detailed investigation into the dynamics of population movements proper. The value of the available statistics as statistics is discussed with gratifying thoroughness. In addition, some, yet not all, of the latest modern methods of statistical computation are analyzed and applied. Urbanization is affecting the marriage, birth, and other demographic rates. An opposite tendency is created by the present predominance of minor age groups which implies a large proportion of future *potential* mothers.

Although the refined birth rate is declining, the diminution of the death rate—with possibilities for a far greater decrease if adequate health service were provided by the government—as well as the change in the age composition of the population, makes for a continued absolute increase in Japan's population. Dr. Ishii relates this trend to the present occupational figures and finds in their disparity the causal factor for the nation's problem of population.

The last five chapters of the book are devoted to proposed remedies for Japan's surplus population. "A study of the food supply of Japan revealed that the nation's food problem is not intrinsically a problem of merely feeding the increasing millions" (p. 251). Here, Dr. Ishii makes his most important contribution. He demonstrates conclusively that the present costs of production in Japanese agriculture are high and if met fully will tend to oppress Japanese industry and to lower the real wages of labor. If costs could not be met over a longer period of time, it would mean ruin to the rural districts of Japan and thus create an additional population problem. And this contradiction is *increased* in proportion to Japan's colonial expansion into countries with still lower standards of living. In view of this fact the frequently advocated solution by means of emigration appears only a farce since the very condition of participation in Japan's economic set-up is lower cost which can be offered only by the suppressed colonial population.

The author concludes that capitalism in Japan is assuming "the form of a general low standard of living and a consequent inefficiency along all lines of economic and social life" (p. 253). It is essential for an adequate attack upon Japan's population problem to look toward an improvement in the distribution of the national income (p. 253).

Dr. Ishii's book represents a noteworthy attempt to develop a more adequate method for the analysis of obviously *dynamic* socio-economic phenomena. He attacks, like many others today, the procedure and conclusions of an analysis based on static assumptions, and succeeds, again like many others, only in replacing statics by successive and amplified statics. This is shown especially in his chapter on "Demographic analysis."

K. H. NIEBYL

Carleton College

## NEW BOOKS

GINSBURG, L. *Population movements—a study in migration*. (London: New Fabian Research Bureau. 6d.)

JOHANSON, J. P. *Immigrant settlements and social organization in South Dakota*. (Brookings: South Dakota State Coll. of Agric. and Mechanics Arts. 1937. Pp. 63.)

This is a continuation of an earlier statistical analysis of the sources, numbers and distribution of the immigrant population of South Dakota (bulletin 313, 1936). Numerous statistical tables and charts give a clear picture of the distribution and relative importance of the chief immigrant groups. Social organization centered chiefly in the churches. These and fraternal orders have been the channels by which foreign cultural influences have found embodiment in American community life. Immigration culminated in 1910, and the survival of the influence of these Norwegian, Danish, Bohemian and German-Russian groups has depended on numerical strength, compactness of settlement, ability to merge social organizations with interstate central bodies and to make the adjustments necessary when foreign languages were superseded by English.

LUCILLE EAVES

MARSHALL, T. H., and others. *The population problem: the experts and the public*. (London: Allen and Unwin. 1938. Pp. 176. 5s.)

NAVA, S. *Elementi di dommatica della colonizzazione*. (Firenze: Polig. Universitaria. 1937. Pp. 181.)

*Registrar General's statistical review of England and Wales for the year 1935*. New annual ser., no. 15. (London: H. M. Stationery Office. New York: British Lib. of Information. Pp. vii, 197. 3s. 3d.)

## Social Problems and Reforms

## NEW BOOKS

ANDERSON, E. L. *We Americans: a study of cleavage in an American city*. (Cambridge: Harvard Univ. Press. 1937. Pp. 286. \$3.)

ATWATER, P. *Problems of administration in social work*. (St. Paul: McClain and Hedman. 1937. Pp. 236, mimeographed. \$3.50.)

BURROW, T. *The biology of human conflict: an anatomy of behavior, individual and social*. (New York: Macmillan. 1937. Pp. 435. \$3.50.)

One may be tempted to question the appropriateness of bringing to the attention of economists a study that obviously belongs to the field of medicine. But even a brief consideration of the thesis presented will make clear that the medical background from which this book was written possesses unquestionable social implications. A significant hint of this trend is to be found in the subtitle. From this point of view the psychoses and the neuroses, the acute imbalances of extreme poverty and over-great wealth, crime in all its phases, war, and the infinite variety of social ills that beset mankind, are viewed as behavior-disorders that call as clearly for a scientific approach as does the individual patient who suffers from diabetes or infantile paralysis.

In contrast to the traditional effort of the psychiatrist to readjust his patient to the normal social milieu, Burrow envisages a social problem that embraces both the social milieu and the patient. In this altered approach "nervous or

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behavioral disorders are regarded as due to a definite physiological conflict or embarrassment within man's organism both as an individual and as a race, not to the false ideas, impressions and effects personally acquired by him." It is the discovery of this internal physiological conflict underlying man's disorders of adaptation and the isolating of it that is Burrow's revolutionary contribution to the study of human behavior—a contribution which because of its objectively scientific method is analogous to that of Pasteur and other early bacteriologists in laying bare the underlying cause of infectious diseases.

This discovery is not without its application to the field of economics, for the most abstract economic problem has its poignant repercussions in the life of practically every human being. According to Burrow's thesis the inequality among individuals in our modern communities is not an economic problem, but a biological one. It is not due to the cupidity of the few preying on the ignorance and inefficiency of the many, but it is traceable to a bio-physical disturbance that is racial and that is therefore demonstrable in all groups as in all individuals.

It was only a few years ago that the discoveries of Koch and his co-workers led us to shift our interest from the symptoms of infection in the single individual to the support of public hygiene movements and a widespread social effort to wipe out the fundamental cause of these disease-processes. If in the domain of man's social ills we are now dealing merely with outer symptoms, it is safe to predict that once the underlying cause of these ills has been accepted by us, we shall respond with a social zeal and energy that will be no less wide-sweeping.

AIMÉE GUGGENHEIMER

DEARBORN, W. F. and ROTHNEY, J. W. M. *Scholastic, economic, and social backgrounds of unemployed youth*. Harvard bull. in educ., no. 20. (Cambridge: Harvard Univ. 1938. Pp. 183. \$1.50.)

EINAUDI, L. *Miti e paradossi della giustizia tributaria*. (Turin: Einaudi. 1938. Pp. 278. L. 15.)

FRANKLIN, Z. C. editor. *Social security: progress and prospects*. (New York: Nat. Municipal League. 1937. Pp. 31. 50c.)

A pamphlet containing five articles: "Progress and prospects under the Social Security act," by Frank Bane; "Public assistance and municipal welfare problems," by Zilpha C. Franklin; "Interstate problems in social security," by A. J. Altmeyer; "State plans for unemployment compensation," by R. Gordon Wagenet; "Developments in the old-age benefits program," by LeRoy Hodges. These were originally published in the *National Municipal Review*, but are here amplified.

HAUSKNECHT, L. *Der Solidarismus oder die Doktrin der sozialen Solidarität als ökonomische, juristische, soziale, politische und kulturelle Bewegung*. 2nd rev. ed. (Cernauti: "Eminescu." 1938. Pp. 62. 50 Lei.)

HODGKINS, G. W. *A guide to newer methods in teaching the social studies*. (Cambridge: Nat. Council for the Social Studies. 1937. Pp. 75. 50c.)

JANZEN, C. C. and STEPHENSON, O. W. *Everyday economics: a study of practices and principles*. 1938 ed. (New York: Silver Burdett. 1938. Pp. xiii, 512. \$1.68.)

The 1938 edition of *Everyday Economics* introduces some pleasing half-

tones and graphs and some new material upon coöperatives, deposit insurance, housing, and social security. The edition does not vary either in structure or in mode of treatment from the first edition brought out in 1931. It has simply been revised in matters of detail. It stands now as it did in 1931, a good descriptive approach to economics with a small section devoted to distribution. It should continue to be useful to the teacher who wants a descriptive approach and still does not want to exclude all orthodox economic theory.

WILLARD E. ATKINS

KNOPF, S. A. *Child labor and the nation's health*. (Boston: Christopher. 1937. Pp. 32. 50c.)

LAGUARDIA, F. H. *Community improvement appraisal*. (New York: Works Progress Admin., Public Information Sec. 1938. Pp. 103.)

LEARNED, W. S. and WOOD, B. D. *The student and his knowledge: a report to the Carnegie Foundation on the results of the high school and college examinations of 1928, 1930, and 1932*. Bull. no. 29. (New York: Carnegie Found. for the Advancement of Teaching. 1938. Pp. xx, 406.)

McKENZIE, C. W. *Party government in the United States*. (New York: Ronald. 1938. Pp. xi, 597. \$3.75.)

SELLIN, T. *Research memorandum on crime in the depression*. Bull. 27. (New York: Social Science Research Council. 1937. Pp. vii, 133.)

The author gives us the summaries of earlier studies in the correlation between crime and the business cycle, an inverse correlation not very high in amount between the business cycle and crimes against property. As for other crimes, the correlation was sometimes direct and never strongly inverse. Then immediately preceding our depression was the prolonged depression of the North of England in which the increase of crimes between 1921 and 1929 was much greater in the North for all kinds of crimes than in the relatively prosperous South. This brings up the difference between the relationship of crime to a depression of forty odd months or to one that lasts a decade. The figures for our own depression are still fragmentary. What is one to do with the California report showing in Los Angeles increases in 1931-1932 over 1928-1929 of 62.5 per cent for burglary, 92.4 for robbery, 72.3 for theft from person, other than to assume that Hollywood was richly endowed with suitable material, when Illinois showed from 1924 to 1929 an increase in admission to state penal institutions from 31.33 to 60.96 per 100,000 population, and in the subsequent depression years, 1930, 1931, 1932, the ratios were 59.10, 65.21, and 62.94?

OLIN INGRAHAM

THOMPSON, W. S. *Research memorandum on internal migration in the depression*. Bull. 30. (New York: Social Science Research Council. 1937. Pp. vii, 86.)

Consider the new situation where "Go West, young man" has changed to "One can only say that probably the West-East movement is now greater than the East-West." Consider the movement from the South: "In 1930, 1,931,799 white persons and 1,355,789 negroes born south of the Mason and Dixon line were living north of it. This represents an increase since 1900 of 105 per cent for whites and 304 per cent for negroes." Of course everywhere there

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was a net movement toward the cities. Then came the depression. The agricultural census of 1935 seemed to indicate a depression movement back to the farms. Thompson subjects this census to drastic criticism, the upshot being that the movement to the farm was very much smaller than there shown. And he quotes from Lively and Foote that "in accounting for the accumulation of rural youth in the rural districts since 1930, failure to migrate may be regarded as a factor of at least twice the importance of return migration."

An interesting case of migration recorded in this memorandum is the migration within a city. Out of 14 districts of Cleveland, 13 received new families in 1933 which amounted to more than ten per cent of the existing families.

OLIN INGRAHAM

VAILE, R. S. and CANOYER, H. G. *Research memorandum on social aspects of consumption in the depression*. Bull. 35. (New York: Social Science Research Council. 1937. Pp. vii, 86.)

Chapter 2 contains a convenient set of tables on depression expenditures. In those tables we see that expanding trends can master depression as in the 390 figure for the sale of electric refrigerators in 1932, the 1929 sales being the 100 base. On the same base we see the fall of automobile sales to 30, the fairly stable physical quantity of food sold, meat 96 and wheat flour 93, the fall in silk to 89, of boots and shoes to 86, and cotton consumption to 70. In the Minnesota study we see that families whose incomes in 1931 were reduced by less than five per cent from that of 1929 and who therefore had stationary dollars to meet falling prices, did not increase their saving but met falling prices on foodstuffs by spending a smaller total, and almost stationary prices on automobiles by increasing their total expenditures. The families whose income fell by more than five per cent saved much less, spent far less on automobiles and decreased their expenditure for food, in spite of the fall in food prices, by far less than their percentage fall of income. There are tables to show that credit, like the banker, lends you the umbrella when the weather is fair and asks it back when it is stormy. The proportion of retail sales where credit was granted fell from 53 in 1929 to 45 in 1933. But I suppose the wonder is that the fall was not greater.

OLIN INGRAHAM

WALKER, M. L. and others. *Urban blight and slums: economic and legal factors in their origin, reclamation, and prevention*. (Cambridge: Harvard Univ. Press. 1938. Pp. xvi, 442. \$4.)

WEBB, W. P. *Divided we stand: the crisis of a frontierless democracy*. (New York: Farrar and Rinehart. 1937. Pp. vii, 239. \$2.50.)

*New horizons in planning*. Proc. of the National Planning Conference, Detroit, Michigan, June 1-3, 1937. (Chicago: Am. Soc. of Planning Officials. 1937. Pp. 178. \$2.)

*Savings and American progress: a sequel to "Capital Goods and American Progress" and further discussion of the relation of wealth-creating enterprise to employment and the American standard of living*. (Chicago: Machinery and Allied Products Inst. 1937. Pp. 35.)

*The Social Science Research Council: annual report, 1936-1937*. (New York: Soc. Sci. Res. Council. 1938. Pp. 62.)

### Insurance and Pensions

*Health Insurance: The Next Step in Social Security.* By LOUIS S. REED. (New York: Harper. 1937. Pp. xi, 281. \$3.00.)

If I am not greatly mistaken, Dr. Reed's book marks the end of an era. For years specialists have talked and written books about health insurance for America, largely to and for each other. Millis, Davis, Falk, the late Sydenstricker, and Reed himself have contributed to this literature. Commission after commission, lay, medical and mixed, has made its solid reports, the most significant the product of the truly gigantic labors of the Committee on the Costs of Medical Care. The Reed book arrives at a time when health insurance seems finally to be coming out of the government and research closet and onto the morning newspaper.

The Reed book is distinctive not because it breaks new scientific ground. On the factual side it is valuable chiefly because it brings the report of the Committee on the Costs of Medical Care to date. For the non-partisan in the health insurance wars, and quite irrespective of the conclusions one draws from them, the factual statements of the Committee stand and will stand for years to come—not unchallenged in every detail, not perfect, but so far ahead of anything we have or soon will have that further investigation of the facts of our medical situation necessarily takes the form of local or special studies intended to convince local or special interests that California or Michigan are not so different from the lesser breeds without the law.

This is not an ungracious insinuation that Dr. Reed has done merely an editorial revision down to date. He has done that and considerably more. He has applied to health insurance and its medical-social-economic background the same disarming treatment that Rubinow, the great pioneer, applied a few years ago to the whole subject of social insurance. His first 11 chapters outline the extent of our medical-care problem and our failures to make the present medical-care system work even reasonably well either for patient or doctor. He admits in his preface that he is a "proselytist." But he succeeds remarkably in preserving his scientific aplomb, he plays fairly both sides of the medico-economic street, until he comes finally in the last chapter to his conclusions and his program. I suspect that the author in preparing enjoyed as much as the reader in reading the full flavor of his subtle analogies, *e.g.*, between medical service and educational service. He is so sweetly reasonable, the parallels develop so demurely; but the argument builds up with a tight precision that to medical men must seem just short of diabolic. The parable (beginning p. 47) is a masterpiece.

It would be quite unfair to imply, then, that this is only a job of popularizing. It *is* popularizing but intelligently, fairly done, and sharpened on

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nearly every page by shrewd observation, metaphor or dry understatement. The rights of both sides in the eternal argument between layman and physician on the difficulties of budgeting medical costs have never been so clearly presented. Excellent also are the sections that show that the doctor is a business-man as well as a professional; that medical men are unique in their enjoyment, almost entirely unregulated, of facilities provided by others; that under private medical care no public authority regulates their activities once they have their state licenses. The complexity of the situation, concludes Dr. Reed, is accentuated by the fact that "the practice of the healing art was once a divine calling. Neither the physician nor the laity has quite forgotten that."

The last 3 chapters cover voluntary health insurance, compulsory health insurance abroad, and the author's conclusions and program. Briefly, he proposes for our immediate future, largely on the basis of European experience, not a single but a double system of medical care. For the states with predominantly an industrial population (where there are payrolls to tax) he suggests orthodox health insurance state-administered. This would be financed through a federal tax on employers' payrolls, a state tax on employees' pay-envelopes and state grants-in-aid, with an outside total cost of  $4\frac{1}{2}$  per cent of wages. It would provide medical care only, not cash benefits. (It is not clear from his statement why the  $1\frac{1}{2}$  per cent payroll tax, all to be refunded if the state passes a 2 per cent pay-envelope tax, would have the same effect as the tax-offset in the Social Security act.) For agricultural states there would be a much expanded and improved system of medical care, centered like health insurance on the public and private hospital, and financed by the states out of general taxation with federal subsidy. (Reed makes no suggestion for mixed states like Pennsylvania but there is no reason why there should not be a mixed system.) Cash benefits would be provided under an entirely separate contributory scheme, joined preferably with unemployment insurance with which it has many connections.

Ultimately Reed looks forward to "a system of state medicine, with care available to the entire population, organized along the lines of the public education system, supported from general government revenues, and with the service given by full-time salaried physicians, dentists and nurses in the employ of government-controlled hospitals and clinics." But this, remembering how the vested interests of decades back still clutter up the British and German health insurance systems, he does not expect for some time to come. We shall do well if we can get a reasonably satisfactory compromise among all the interests involved on a scheme for health insurance medical benefits.

C. A. KULP

*University of Pennsylvania*

*Report on the British Health Services: A Survey of the Existing Health Services in Great Britain with Proposals for Future Development.* (London: Political and Econ. Planning. 1937. Pp. 430. 10s. 6d.)

This study, the most recent of a series of objective surveys relating to current social and economic problems of Great Britain published by Political and Economic Planning, presents a comprehensive review of the public and private health agencies of Great Britain and proposals which (in the opinion of the authors) will lead to a more comprehensive and unified health program for the nation.

The volume opens with a brief summary of the administrative organization of British health services and a review of the more important "impersonal" protective services such as control of the food and water supply, sanitation, housing, noise, drugs, and infectious diseases. This is followed by an analysis of protective measures applicable to the health of the worker in mine, on board ship, in office or in factory. The study then turns to an examination of the availability of health services to individual members of the family; to the mother and child, largely through maternity and child-welfare measures, to the wage-earner through National Health Insurance and contributory hospital insurance schemes, and to other dependents through special services. These considerations lead to an examination of the training, duties, services and incomes of general practitioners, specialists, nurses, dentists, and other persons involved in the performance of health services. Short discussions of the nature and organization of medical research, provisions for the improvement of nutrition among children, and plans for health and psychological medicine are then given, followed by a description of the new health experiments being carried on in certain districts throughout the Isles. The study closes with a brief review of statistical data in answer to the questions, "Are Britishers getting healthier?" and "What does ill health cost?" and an analysis of some underlying problems of health services raised throughout the report.

British health services are found to be administered by many different bodies and in many different ways. In England and Wales 1,011 different organizations are supplying water under special or general Acts, and an additional 1,080 bodies serve without statutory powers. Only to a limited extent are present services found to be aiding in the eradication of social and economic causes of illness brought on by the sale of dangerous drugs, by unsanitary conditions, poor housing, and infectious diseases. There still persists a "disturbing ignorance" about the health aspects of British industry; and safety and health educational programs among both manager and worker are essential. Maternal mortality rates, until very recently, have tended slowly but definitely upward. About one baby in 50 dies within a week of birth and the majority of confinements still take place "at home and under a variety of conditions, of which the most usual in England and

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Wales is that there is a midwife in charge who calls in a doctor if necessary." Maternal benefits under National Health Insurance are found to be inadequate since they are made as a £2. cash payment, and often no provision is afforded for needed medical care. Many school and pre-school children are without proper nutrition and health services. Approximately 19 million workers now come under the National Health Insurance System, and are thus materially aided in guarding against many of the losses brought on by poor health. But this system at present involves 859 "approved societies" with a membership ranging between 34 and 2,600,000 persons each, a fact which introduces many difficult and complex administrative problems. Furthermore, over 16 million additional dependents and excluded persons should be brought under an extended National Health Insurance scheme if it is to meet the basic needs of the low income groups, and benefits offered by the different societies should be standardized, and extended, perhaps to include the contributory hospital plans now in force outside the scope of the National Health Insurance plan proper.

The work is essentially a survey, and to the mind of the reviewer, helps to fill an existing deficiency in the literature bearing upon this subject. The authors (PEP work is traditionally anonymous) have presented in a clear, simple way the historical development of the major health services of Great Britain, and have brought together what appears to be a sound program leading toward the extension of these services in that country.

There can be little objection to the constructive program presented. The British Health System can be strengthened best by a reorganization of all health services around the general practitioner "who should be enabled to bring the resources of the health services on the one hand into contact with the needs and peculiarities of the individual patient on the other" (p. 25). This needed coördination involves the raising of standards of personnel, training and equipment of the general practitioner, and the checking of unbalanced growth of specialist agencies. The steps involved in such a program are: (1) better use and arrangement of existing services; (2) expansion of measures for improving nutrition of children; (3) extension of health insurance services to dependents and other needy persons; and (4) increased research and experimentation relative to defects of present health services and industrial and social causes of illness.

The reviewer finds little to criticize in this work. Its most serious limitation seems to be that more primary statistical evidence was not obtained throughout the survey, and that the study was not documented more carefully with references and footnotes. Another weakness of the book relates to the style and form of the statistical material. Without careful study of the text, the reader will find it difficult at times to interpret the tables and charts.

PAUL A. DODD

*University of California at Los Angeles*

NEW BOOKS

- DE WERTHERN, O. *Industrial life insurance must be investigated*. (New York: Policyholders Advisory Council. 1937. Pp. 15. 50c.)
- GALE, J. W. *Introduction to marine insurance*. (New York: Macmillan. 1938. Pp. 270. \$1.60.)
- MANES, A. *Insurance: facts and problems. Selected lectures on business administration and economics*. (New York: Harper. 1938. Pp. xii, 182. \$2.)
- PINK, L. H. *Some current problems of insurance supervision*. State of New York, 79th annual rep. (Albany: State House. 1938. Pp. 97.)
- REED, L. S. *Health insurance: the next step in social security*. (New York: Harper. 1938. Pp. 261. \$3.)
- SARKAR, B. K. *Social insurance legislation and statistics: a study in the labour economics and business organization of neo-capitalism*. (Calcutta: Calcutta Pubs. 1936. Pp. xx, 446. Rs. 8.)
- SWANISH, P. T. *Trade disputes disqualification clause under the British unemployment insurance acts*. (Chicago: Univ. of Chicago Press. 1937. Pp. ix, 73. \$1.)

This painstaking analysis of administrative decisions under one of the principal disqualifying clauses of the British unemployment insurance acts, made by the officer directly in charge of administering unemployment insurance in Illinois, is one of the most helpful contributions that could be made to the success of our own new system. Now that we are fully committed to a social insurance program, our main tasks are to amend and perfect the acts under which we operate so as to make them workable and sufficiently inclusive, and to develop administrative rules and machinery that will make them effective. Poor administration can wreck the whole plan. The Social Security act itself drew heavily upon British experience, and it stands to reason that we can also learn much from British administrative practices.

Dr. Swanish first indicates all of the grounds for disqualification from unemployment benefits under the British acts (almost wholly the same as those stated in the act of 1911); gives the steps in the adjudication of claims; and then proceeds to show how British umpires have dealt with the many intricate problems of what constitutes a trade dispute, when the dispute involves "conditions of employment," what is meant by "appreciable stoppage" of work, and, perhaps most difficult of all, when a given employee is or is not participating in, or financing, or directly interested in the outcome of a dispute by which he is thrown out of employment. There is likewise the question as to how and when a worker can become free from disqualification through carrying on his trade elsewhere or by a change of occupation. The author relies chiefly upon the *Analytical Guide to Decisions and Selected Decisions Given by the Umpire*, both published by the Stationery Office, and makes liberal and frequent quotations from the opinions in specific cases.

WARREN B. CATLIN

- Digest of workmen's compensation laws: annotated digests of the workmen's compensation laws of the United States and territories*. 15th ed. (New York: Assoc. of Casualty and Surety Executives. 1938. Pp. 844. \$10.)
- The evaluation of permanent incapacity for work in social insurance*. Stud. and rep., ser. M (soc. insur.), no. 14. (Geneva: Internat. Labour Office. 1937. Pp. xvi, 375. \$2.75.)

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The longer experience and more unified supervision in the many countries whose experts collaborated in this study make possible a full presentation of the intricate factors to be reckoned with when efforts are made to bring greater justice and security to wage earners. The study begins with conceptions of incapacity for which the laws grant compensation. Do the statutes provide for physical injury, for inability to pursue the customary occupation, or for general loss of power to engage in gainful employment? Should consideration be given to age and economic situations? What weights should be given to these and various other factors when they are combined as a measure of the incapacity for which compensation should be granted? A rough estimate of the monetary evaluation of incapacity may be arrived at by comparisons of earnings before and after the injury, or with the average earnings in the occupation of the victim. Elaborate and more or less binding schedules have been developed to assist administrative officials, but provisions for re-examination and right of appeal have usually been found necessary. These intricate problems of administration are set forth with wealth of case illustrations and quotations from the arguments of judicial authorities. Accident compensation is being rapidly extended in the United States to include loss of earning power due to industrial diseases. Administrative officials will find precedents in this voluminous report which will assist them to sound evaluations of incapacity.

LUCILE EAVES

*Insurance convention yearbook.* 1937 ed. (New York: Convention Year Books Co. 1937. Pp. 370. \$3.)

### Pauperism, Charities, and Relief Measures

*Trends in Relief Expenditures, 1910-1935.* By ANNE E. GEDDES. WPA res. monog. x. (Washington: Supt. Docs. 1937. Pp. vii, 117.)

This research monograph of the Division of Social Research, Works Progress Administration, is a book of facts dealing not at all with policies or with theories. Owing to the lack of continuous state and local records and the incompleteness of data concerning private relief work, the task of constructing series over a period of 25 years proved a difficult one. Nevertheless from the samples presented certain trends are clearly established.

The most conspicuous of these is, of course, the rising cost of relief. Every series shows this. One aspect of this trend, given some emphasis in the text, but sufficiently borne out by the tables, is that relief costs were rapidly expanding before the beginning of federal participation in relief work in 1933. In a group of sixteen cities containing, in 1930, nearly one-fifth of the whole population, public relief cost rose from \$1.5 millions in 1911, to \$6.1 millions in 1919, \$12.8 millions in 1924, \$19 millions in 1921, and to \$64.1 millions in 1931. The per capita increase was from ten cents in 1911 to \$2.94 in 1931. During the period the population of these cities increased 45 per cent; the governmental cost payments, all depart-

ments, 303 per cent; and outdoor care of the poor, 4,026 per cent. Unfortunately this series is not continued to the end of the period.

A similar though not so striking growth is shown in outdoor relief from private sources. In New York City, *e.g.*, relief from private agencies rose from \$743,000 in 1910, to \$24.5 millions in 1932. Another trend is noticeable in this connection—a sharp decline in the proportion of private to public relief expenditures. In 1910 private agencies in New York City supplied 76.4 per cent of the total; in 1932, 29.7 per cent; in 1934, 4.1 per cent. In the last three years of the series private relief declined precipitously from \$24.5 millions to \$7 millions. The same drift away from reliance upon private funds is shown in 120 unspecified urban areas. In the three years 1930-32 private agencies supplied 25 per cent of the total; in 1935, 1.4 per cent. Data for 305 rural-town areas disclose the same tendency, though there private relief has never been a large part of the total.

Miss Geddes notes the increasing importance of relief expenditures for special classes. Mothers, soldiers, and sailors have long received special assistance; the new "categories" that have in recent years been added are the aged, the blind, and dependent children. Expenditures for these groups show a rapid increase.

Part 2 "attempts to measure the national burden of public relief exclusive of institutional care" for the three years 1933-1935. The summary conclusion is that the total "emergency relief, wage assistance, and categorical assistance extended to families and individuals" amounted during the three years to approximately \$5,375,000,000 (of which \$1,605,000,000 went as wages on C.W.A. and P.W.A. projects and for C.C.C. wages and subsistence); \$3,513,000,000 for "emergency relief" (about \$2,000,000,000 of it for "direct relief," and \$1,500,000,000 for "emergency work," and social program, relief); \$257,000,000 was for categorical relief—the aged, blind, and dependent children.

Large as these figures are, they do not show the full national burden of public outdoor relief. They exclude expenditures through long established state and local channels, the cost of federal project materials, surplus commodities distributed through the Red Cross, and other items that enter into the national burden.

Miss Geddes makes no forecast of the future; but she points out that whenever in the past an emergency has occurred bringing about an increase of relief expenditures, the recession which follows the passing of the crisis stops before it has reached the old level—a new base is established from which future increases are made. There seems to be every indication that in the present case this tendency will assert itself with more than usual force on account of the prevailing social philosophy concerning public obligation to care for those in distress. This philosophy no doubt will also tend

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to make permanent the shift from private to public relief disclosed in this study.

G. O. VIRTUE

University of Nebraska

#### NEW BOOKS

DAVISON, R. C. *British unemployment policy: the modern phase since 1930.* (London: Longmans Green, 1938. Pp. x, 136. 7s. 6d.)

KURTZ, R. H., editor. *The public assistance worker: his responsibility to the applicant, the community, and himself.* (New York: Russell Sage Found. 1938. Pp. 224. \$1.)

Contains six chapters: "Public assistance in the United States," by Arthur Dunham; "Who shall be granted public aid? How much? In what form?" by Donald S. Howard; "Dealing with people in need," by Margaret E. Rich; "Problems of health and medical care," by Dora Goldstine; "Tying in with the community," by Gertrude Vaile; "Public assistance and social work," by Russell H. Kurtz. There is also a helpful list of reading references (8 pp.).

MELVIN, B. L. *Rural youth on relief.* WPA res. monog. xi. (Washington: Supt. Docs. 1937. Pp. xvii, 112.)

WHETTEN, N. and MCKAIN, W. C., JR. *A sociological analysis of relief and non-relief families in a rural Connecticut town.* (Storrs: Connecticut State Coll. 1937. Pp. 79. Gratis.)

This study of 968 households, 99 per cent of all families living in Montville, a rural community in southeastern Connecticut, shows conditions which may prevent the economic independence alleged to result when industrial employment is supplemented by part-time farming. Some form of public support was given between 1930 and 1934 to 339 of the 968 families; and, in 1935 the rate of relief exceeded that of the state and of the United States. Families most in need of assistance were of alien origin, largely Polish. They had moved to Montville after periods of residence in urban centers, chiefly New York City, but recent arrivals were less dependent than those who had been in residence before the depression. Unskilled farm and factory laborers, semi-skilled factory workers, skilled building trades employees, in the order named, had the highest percentages of relief. Inasmuch as industrial employment during the depression was never reduced more than 20 per cent, families on the land should have been able to meet their needs. The thorough analysis of the data gathered reveals the following reasons for the economic breakdown of this community: failure to select crops adapted to family and soil needs; lack of experience and skill in agricultural activities. Homes were often located off the main highways, so that workers were inaccessible when factory hands were needed. Thrifty local management by which road work enabled needy residents to escape poor relief was superseded by less discriminating federal relief projects. A tendency to trade and find recreations in nearby urban centers, resulted in the absence of local social organizations which stimulate self-respect and neighborly coöperation.

LUCILE EAVES

*Local government financial statistics, England and Wales, 1935-36. Part I. Poor relief.* (London H. M. Stationery Office. New York: British Lib. of Information. Pp. 30. 7d.)

### Socialism and Coöperative Enterprises

*Socialism versus Capitalism.* By A. C. PIGOU. (London: Macmillan, 1937. Pp. vii, 139. \$1.75.)

This book may well be entitled *A Modern Economist's Reflections on Socialism*. Far from undertaking an ambitious task of proving or disproving the possibility or even desirability of socialism and without introducing any fundamentally new points of view, Professor Pigou discusses in eight well balanced chapters the main practical and theoretical aspects of socialist economics and arrives at the conclusion in favor of gradual socialization.

For the adherent of the modern school of welfare economics his treatment of "appropriate distribution of resources," of satisfaction of "more urgent needs," might prove to be somewhat of an anti-climax. Far from putting the fundamental question squarely in the center of discussion, the author of *Economics of Welfare* proceeds to enumerate one after another various evils and advantages of the two systems. The basic concepts of ideal output and maximum social utility come up in three or four instances only to be dropped again without further clarification, not to say application.

Professor Pigou explains such reluctance to use the theoretical apparatus which he himself was so successful in building up by referring to practical or rather statistical difficulties: "Plainly the difficulties are formidable, so formidable that so far as I know, no attempt has ever been made in a capitalistic régime to use bounties and duties for bringing about adjustments of the kind I have been describing. . . . But what about socialism? A central [socialist] planning authority would find it no more easy than the government of a capitalist State to obtain the data required for these calculations . . ." (p. 43-44). The author concludes that there is required the relevant "knowledge of a sort we do not at present possess" and he thinks that "the eventual winning of it is no more likely under the one system than under the other."

For the faithful follower of the Cambridge theory of "ideal output" this admission is bound to be a shock. Most likely he will wish to know at least the type of data whose lack makes the entire system of welfare economics inapplicable and why it should be so difficult to gather them even in the ideal socialist economy. Professor Pigou's book will not satisfy his curiosity.

The more sceptical reader has also good reason to regret such reticence. Quitting the contest on the grounds of a technical default, Professor Pigou avoids the discussion of the fundamental theoretical issue involved. Thus he misses an excellent opportunity to answer those critics who maintain that an absolute objective measure of "common social welfare" cannot possibly be found. Incidentally, this type of attack represents a much more serious threat to any attempt toward rational justification of socialism than the

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old-fashioned liberal belief that competitive capitalism can secure the highest of all possible levels of general prosperity.

With great precision and clarity Professor Pigou describes the structure and operation of the hypothetical price system in a socialist economy. (The theoretical possibility of such a system, Professor Mises' objections notwithstanding, can be considered by now to be definitely established.) Following the path indicated by Dr. Lange and other authors, he visualizes it as a system of fictitious accounting prices and interest rates. Having in mind a strictly equalitarian system of income distribution, Professor Pigou introduces a new concept of "accounting wages": although the actual remuneration of different types of work in his socialist society will have nothing to do with the specific productivity of corresponding professions, the autonomous socialist business managers will be expected to calculate their cost on the basis of special accounting wage rates adjusted by a central planning board in such a way as to equate the demand for particular types of labor to the available supply. The supply in its turn is to be determined by the planning authority. "When it has decided, for example, that so many doctors are required it chooses the youths to be trained for doctors" (p. 117). Professor Pigou apparently does not put much stock in Marshallian concepts of subjective disutility of labor.

A large part of the book is devoted to what might be called the institutional advantages and disadvantages of socialist economy as compared with the capitalist. Problems of incentives and self-interest are discussed at length. The author is fully aware of the impossibility of arriving in this sphere of argument at any definite demonstrable conclusions. This realization does not prevent him, however, from allotting in each particular instance "marks" of comparative advantage to either of the two competing systems. In cases of insufficient evidence he is inclined toward fifty-fifty decisions.

On the whole Professor Pigou evaluates rather optimistically the efficiency of public enterprise. He believes, for example, that "a municipal authority will be under no temptation to slaughter animals for food to escape the expense of making them sanitary; a private butchering concern may do this" (p. 90).

Although in the concluding paragraphs socialism is declared to be the victor, the victory is attained only through a margin in points and a rather narrow margin at that.

WASSILY LEONTIEF

Harvard University

#### NEW BOOKS

BONOW, M. *Kooperationen och folkförsörjningen*. (Stockholm: Kooperativa Förbundets Bokförlag. 1936. Pp. 185. Kr. 3.)

This informative volume deals with the economics of consumer coöpera-

tion, based upon the experiences of the Swedish Consumers Union (*Kooperativa Förbundet*). The consumers' coöperative, as a form of business enterprise, is looked upon as an outgrowth of the general economic development in the industrialization of the western nations. Following this approach, Mr. Bonow has devoted the first chapter of his study to a brief treatment of the rapidly changing economic and social milieu, in which Swedish consumer coöperation operates and of which the movement itself is a part. The data are uncommonly well chosen. Chapter 2 is a survey of the evolution of the various "interest groups" (*intresseorganisationer*). These interests and their organizations are classified under the headings of manufacturers' and trade associations, wholesalers' and retailers' associations, farmers', wage-earners', consumers', and tenants' (coöperative housing) organizations. Succeeding chapters deal with consumers' interests as an economic factor, consumers' coöperatives and private industrial monopolies, consumers' coöperation and the business cycle.

Mr. Bonow points to the ineffectiveness of legislation as a means of controlling monopolistic methods of price determination. In order to do away with monopoly prices in Sweden, "it has as a rule been adequate for the coöperatives to control anywhere from 10 to 25 per cent of the total output," although in most cases not merely as distributors but also as producers (p. 166).

Throughout its existence, the Swedish coöperative movement has been strongly opposed to government aid, direct or indirect. On the other hand, while the coöperatives desire independence and freedom of action, they do not advocate "a struggle against all," in the manner of the Manchester Liberals. Modern economic society is characterized not by individual competition but by a struggle among organized groups. In this struggle consumer coöperation is the economic instrument by means of which the consumer safeguards his interests and makes his demands more effective.

S. A. ANDERSON

CARR-SAUNDERS, A. M., and others. *Consumers' coöperation in Great Britain*. (London: Allen and Unwin. 15s.)

FEELY, R. T. *Communism and union labor*. 2nd ed. (New York: Paulist Press. 1937. Pp. 48. 5c.)

M McNABB, F. V. and STRACHEY, J. *Communism or distribution: a debate*. (London: Distributionist League, 1937. Pp. 44. 1s.)

RUHMER, O. *Entstehungsgeschichte des deutschen Genossenschaftswesens: die ersten deutschen Genossenschaften*. Genossenschafts- und Sozialbücherei, Band I. (Hamburg: Krögers Buchdruckerei. 1937. Pp. 294. RM. 5.80.)

With this book the editor, Robert Schlösser, introduces a new series of historical and sociological studies on the coöperative movement in Germany. In a preface he blames economic science for having neglected research on the origin of this important movement of craftsmen and workers, and declares challengingly that "history must be written in the present," for otherwise the sources are buried. The author was given the difficult task of collecting the scattered data and tracing the roots of the first craftsmen coöperatives. He has succeeded, especially in connection with the credit coöperatives, in providing a valuable survey of the guiding ideas and of their difficult realization, and he has supplemented this material with a series of biographical sketches of the founders, thus contributing a new chapter to the economic history of early German machine capitalism.

It is Ruhmer's contention that the mutual self-help movement of coöperatives was created in Germany by the distressed conditions of weavers, working 14 to 16 hours a day to compete with the new machines, and by the enthusiastic struggle for political liberty and individual freedom. Thus the first coöperatives of handicraftsmen were not initiated by the socialists but were born of the social-liberal movement of the 1840's. Progressive democratic members of the "bourgeoisie" collaborated with the craftsmen in building up an adequate organizational form for mutual self-help. On the basis of joint liability of the fellow members they established the first coöperative credit society (*Eilenburger Darlehenskassenverein*) in September, 1850; and this was soon followed by numerous similar societies in all parts of Germany. Ruhmer brings new light on the conflict between the idea of voluntary cooperation of individuals and Lassalle's political and state socialist goals—in my opinion, however, over-rating the negative influence of Lassalle upon the independent coöperative movement. In Schulze-Delitzsch's "coöperative system" consumer coöperatives were also included, because it was hoped that in their capacity as markets they would quickly promote producer coöperatives, which would free the workers from capitalistic large-scale enterprise. The definite front against Manchester liberalism is even more manifest in the biographical sketches of Schulze's friends and associates.

This book brings out clearly the coincidence of economic distress and democratic ideals which led to the mutually protective types of coöperative organizations; in an appendix it furnishes valuable data on their legal and economic development.

HANS STAUDINGER

STEVENS, W. M. *Coöperative sugar associations*. Ser. on coöperatives no. 8. (Washington: Pan American Union. 1937. Pp. 45. 10c.)

WALL, N. J. *Federal credit for agricultural coöperative associations in the United States*. Ser. on coöperatives no. 5. (Washington: Pan American Union. 1937. Pp. 36. 10c.)

*American coöperation, 1937*. Papers from the 13th summer session of the American Institute of Coöperation at Iowa State Coll. of Agric. and Mech. Arts, June 21-25, 1937. (Washington: Am. Inst. of Coöperation. 1937.)

*The coöperators year book, 1938*. (London: Coöperative Productive Fed. 1938. 6d.)

*A people's constitution for New York*. (New York: Communist Party. Pp. 29. 5c.)

*For socialism and peace: programme of the Labour Party*. (London: The Labour Party. 1938. Pp. 36. 2d.)

## Statistics and Its Methods

*Elements of Statistical Method*. By ALBERT E. WAUGH. (New York: McGraw-Hill. 1938. Pp. xv, 381. \$3.50.)

The aim of this text "is to introduce the student to statistical concepts and statistical nomenclature and to get him to think in statistical terms." It is a "beginner's text," which "does not present original statistical theory" nor does it "cover the 'growing points' of the science that are still under dispute." The author believes that "it should be possible for any serious student to cover the subject here even without the aid of a teacher."

This text opens with the usual "The nature of statistics" chapter, which observes that "it is important to realize the fact that no statistical method can, in itself, insure against mistakes, inaccuracy, or faulty reasoning and incorrect conclusion. These methods are to be thought of as tools which, when in proper hands and when applied to the materials for which they are designed, can turn out useful products, but which have no powers to work wonders by themselves." With this statement he who is interested in applied statistics will agree, and it is to be hoped that all others will heed.

The analysis of the frequency distribution proceeds from ungrouped to grouped data, and it is of interest to note that formulas are "but short-hand directions for computations" to which the student should "become accustomed." The sections concerned with the meaning of the derived values add to the analysis, for all too frequently the beginner looks upon such values as numbers, which are more to be calculated than to be understood.

The chapters on "Probability, the normal curve, and moments" and "Measures of reliability" are least satisfactory, not because they do not cover the field nor because the material is not presented clearly and concisely but because they cover the field too thoroughly for the beginner, which may be a good fault. The analysis of probability is difficult enough, and when followed by the fitting of the normal curve, the Poisson series, moments, etc., the beginner is likely to feel that the water is much, much too deep.

The analysis of historical data is likely to prove least satisfactory for the teacher of business statistics in that an attempt is made to cover too much in too little space. However, the analysis of secular, seasonal, and cyclical variation, and index numbers are well enough discussed for the beginner in general.

The discussions of simple linear and curvilinear correlation, and their extension to multiple correlation, are excellent. The approach is by means of the trend line and residuals. The interpretation and the limitations of the terms are also presented. There is no analysis of partial correlation.

The analysis of "Tabulation and graphic presentation" and "Collection and analysis of data" is too brief and could well be omitted.

In summary, the reviewer considers Professor Waugh's text one of the best in the elements of statistical methods for beginning students in general that he has had the pleasure of reading.

CLAUSIN D. HADLEY

*Indiana University*

#### NEW BOOKS

ARKIN, H. and COLTON, R. R. *An outline of statistical methods as applied to economics, business, education, social and physical sciences, etc.* 3rd ed. (New York: Barnes and Noble. 1938. Pp. 275. \$1.75.)

- COLE, A. H. *Wholesale commodity prices in the United States, 1700-1861. Statistical supplement: actual wholesale prices of various commodities.* (Cambridge: Harvard Univ. Press. 1938. Pp. xxiii, 187; x, 359. \$4; \$2.50.)
- DAVENPORT, D. H., and SCOTT, F. V. *An index to business indices.* (Chicago: Business Pubs. 1937. Pp. vii, 187. \$3.)

This is a guide to the most important index numbers and other statistical indices that reflect the current changes in business conditions in the United States. As to each index listed there is shown the title, compiler, frequency of publication and period covered, name of the publication carrying the current data, and a brief description. The last item does not give enough data on the construction of the index to relieve the user of responsibility for familiarizing himself fully from original sources with the data and procedure used by the compiler, but it does give enough to enable him to judge whether the index is likely to be of sufficient use to him to warrant his going into it further. These descriptions are in part 2 of the book, assembled in three groups dealing with commodity prices, securities and general.

Part 1 is a finding index in three sections, each dealing with one of the above groups, in which each item is indexed and cross-indexed. The finding index not only locates the page on which the item is found but indicates by code the frequency of publication. In the commodity-prices section it also indicates by code whether the index is for retail or wholesale prices. In regard to the indices relating to labor it similarly shows whether a given index is of employment, hours, payrolls or wages. With respect to production and consumption data the finding index codes as to subject: consumption, marketing, production and refining.

There are blank pages provided in each section for the owner to insert data with regard to additional indices to keep the book up to date or bring in local features. The book should be a valuable tool for any research organization studying currently American business conditions.

A. H. MOWBRAY

- LEVEN, M. and WRIGHT, K. R. *The income structure of the United States.* (Washington: Brookings Institution. 1938. Pp. x, 177. \$1.50.)
- LINDQUIST, E. F. *A first course in statistics: their use and interpretation in education and psychology.* (Boston: Houghton Mifflin. 1938. Pp. 237. \$2.25.)
- . *Study manual for a first course in statistics.* (Boston: Houghton Mifflin. 1938. Pp. 120, 80c.)
- Distribution in 26 countries: statistical survey.* Brochure no. 95. (Paris: International Chamber of Commerce. 1938. Pp. 34.)

This contains the statistical results of an inquiry undertaken at the request of the International Distribution Commission, one of the technical committees of the International Chamber of Commerce. It contains seven tables showing (1) total population with distribution of age groups and persons gainfully employed; (2) population according to four sizes of local political units; (3) households by number of members; (4) persons occupied in each of the major occupational groups; (5) persons gainfully occupied in commerce, classified under five groups; (6) commercial establishments and persons occupied; (7) number of commercial establishments and persons occupied.

## PERIODICALS

### General Works, Theory and Its History

- ABRAMOVITZ, M. *Monopolistic selling in changing economy*. Quart. Jour. Econ., Feb., 1938. Pp. 23.
- AMMON, A. *Keynes "Allgemeine Theorie der Beschäftigung."* I, II. Jahrb. f. Nationalök. und Statistik, Jan., Feb., 1938. Pp. 27; 29.
- ARON, R. *La sociologie de Pareto*. Zeitschr. f. Sozialforschung, Jahr. vi, Heft 3, 1937. Pp. 33.
- BALÁS, K. *A mozgás állapota mint társadalmi és gazdasági alaptényező (Mobility as a basic factor in society and economy)*. Közgazdasági Szemle, Jan.-Feb., 1938. Pp. 8.
- BALLANDE, L. *Entre la concurrence et le monopole: étude sur quelques travaux théoriques récents*. Rev. d'Econ. Pol., Jan.-Feb., 1938. Pp. 35.
- BIJL, A. *Werkloosheidsbestrijding door loontoeslagen*. De Econ., Mar., 1938. Pp. 19.
- BÜLOW, F. *Raumordnung, Raumforschung und Wirtschaftswissenschaft*. Weltwirtsch. Archiv, Mar., 1938. Pp. 22.
- BISSELL, R. M., JR. *The rate of interest*. Am. Econ. Rev., suppl., Mar., 1938. Pp. 18.
- BOÉR, A. *Kapitaltheorie und Kapitalbildung*. Jahrb. f. Nationalök. und Statistik, Jan., 1938. Pp. 27.
- CABIATI, A. *Sulla teoria delle crisi economiche*. Giorn. d. Econ., Dec., 1937. Pp. 11.
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- CARLI, F. *Esbique, économie pure et économie nationale corporative*. Rev. d'Econ. Pol., Nov.-Dec., 1937. Pp. 21.
- DOUGLAS, P. H. *Professor Cassel on the statistical determination of marginal productivity*. Canadian Jour. Econ. and Pol. Sci., Feb., 1938. Pp. 12.
- EZEKIEL, M. *The cobweb theorem*. Quart. Jour. Econ., Feb., 1938. Pp. 27.
- GADOLIN, C. A. J. *Om realinkomst och värdeinkomst*. Nationalök. Tids., 75 Bind, 6 Hefte, 1937. Pp. 17.
- GLOERFELT-TARP, B. *Den økonomisk definerede produktionsfunktion og heterogene fremstillingsproces*. Nord. Tids. for Teknisk. Økon., Dec., 1937. Pp. 48.
- GRAZIANI, A. *Vecchie e nuove teorie sull' interesse*. Riv. di Pol. Econ., Dec., 1937. Pp. 10.
- HANDSAKER, M. L. and DOUGLAS, P. H. *The theory of marginal productivity tested by data for manufacturing in Victoria, II*. Quart. Jour. Econ., Feb., 1938. Pp. 41.
- HAWTREY, R. G. *Professor Haberler on the trade cycle*. Economica, Feb., 1938. Pp. 5.
- HAYES, H. G. *Hoarding and the competitive equilibrium*. Am. Econ. Rev., Mar., 1938. Pp. 3.
- HIDAJAT, R. M. A. *De Kapitaalinteresttheoriën van E. von Böhm-Bawerk en Alfred Marshall*. De Econ., Jan., 1938. Pp. 42.
- HOLDEN, G. R. *Mr. Keynes' consumption function and the time-preference postulate*. Quart. Jour. Econ., Feb., 1938. Pp. 17.
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## John Bates Clark, 1847-1938

The career of John Bates Clark coincides in time with the transition in American economics from a colonial dependence upon English political economy to a maturing of native American ideas, influenced in considerable measure by European continental economic methods and doctrines. Like the other giants of those days, Patten, Taussig, Seligman, Ely and the younger protagonists of the new economics, Fisher, Fetter, Davenport, Commons and his own pupil Veblen, Clark had been exposed to the influence of German historical economics and German theory. He had worked with Karl Knies and often quoted Knies in his lectures. But Clark's temperament was fundamentally averse to the historical method. He would occasionally employ a bit of history as illustration, but it meant no more to him than any other rhetorical device. He respected the great historical economists of Germany and approved of the assiduous study devoted to them by his younger colleagues, particularly Professor Seligman. But he could not read them with substantial profit. His health was never good and the few hours he could give to study seemed most usefully employed in an examination of concrete facts and in the elaboration of his own theoretical system. Professor Giddings once told me that when the translations of Wieser's and Boehm-Bawerk's great works first appeared he tried to interest Clark in them, as affording striking parallels to Clark's own system. In vain. Clark read those works after some years but never took any serious interest in differentiating his own position from that of the Austrians. In his lectures of 1898 to 1901, which I attended, students would often try to induce him to accept or refute Boehm-Bawerk's theory of the dependence of the interest rate on the undervaluation of the future. Clark would merely restate, in the clearest possible terms, his own productivity theory of interest. He gave a course on socialistic theories, mainly devoted to Marx, but his method was essentially the same, to confront the Marxian labor theory of value with his own productivity theory of distribution.

The background of Clark's doctrine was the English classical system, under heavy fire in the latter part of the century from the historical economists. Clark recognized the great gulf between the classical economics and actual economic life, but he could not be persuaded that the method and its results were valueless, as the more extreme historical economists asserted. The classical system would work, he felt, under conditions of perfect competition, operating instantaneously; or under conditions of pervasive, if sluggish, competition, operating through time in the absence of such disturbing factors as growth of population, growth of capital, invention, changes in organization, changes in consumption. From Herbert Spencer, whose work otherwise interested him little, Clark picked up the distinction between static and dynamic forces. The world of perfect competition, undisturbed by growth, appeared to him a truly static economic world. Classical economics, as he conceived it, was essentially an analysis of this static world, with bits of half-hearted dynamics thrown in, like the Malthusian doctrine of population, which Clark accepted as more valid for England than for the wide world.

It appeared to Clark that real progress in economic thinking must be based upon a thorough analysis of static forces, followed by an equally rigorous logical analysis of dynamic factors, with necessary allowance for frictional phenomena attending dynamic change. The static study would establish the fundamental nature of value, and the distribution of values. It would clear up the relation between cost and utility and eliminate the naïve notion that competition, operating

freely, would reduce all values to zero. Statically, competition was to be recognized as a force maintaining the level of values, checking inordinate rise or fall in particular fields. Or rather, competition worked toward an equilibrium. It was an equilibrium also of economic justice, since it operated remorselessly toward a situation in which each factor of production would receive exactly its specific contribution.

Static analysis, in Clark's view, offered the best possible approach to such problems as protection and free trade, trade unionism, monopoly, labor saving machinery. But no final conclusions could be reached on any of these problems without a supplementary dynamic analysis. Statically Clark was a free trader, dynamically a moderate protectionist. Statically he would have preferred unlimited competition in the labor market; dynamically he was for trade unionism, provided that the unions limited their demands to what was rightfully theirs, the full product of their labor as established by essentially static determination of productivity.

Clark's argument led inevitably to the conclusion that there could be no substantial advance in general wages except through increased productivity, and that increased productivity must necessarily raise wages. Technological progress was in his view the sole hope of lifting the working class to a high standard of living. He listened with gentle patience to the doctrine, emerging in the early part of our century, that by raising wages and shortening hours the economic millennium could be dragged out from its hiding place around the corner. He had lived through a period in which even intelligent men were dreaming of perpetual motion, and the theory of raising wages in order to increase prices in order to raise wages further seemed to Clark to fall in with the dreams of perpetual motion. Raise wages if the laborer is being robbed of the product economically imputable to his efforts. Raise wages if a better fed, better housed, happier laborer will produce enough more to justify the additional outlay in wages. Any other reason for raising wages foots in delusion.

Although a logician by instinct and conviction, Clark never maintained that logical analysis alone could attain to practical solutions. Logic could disclose the nature and tendency of dynamic forces and the meaning of their interplay. Logic could prove that increasing population tends to reduce wages as increasing capital tends to raise wages. But logic alone could give no quantitative results, and therefore could offer no valid forecasts on the economic movement as a whole. What was needed to supplement the theoretical analysis was a comprehensive statistical study, directed along the paths marked out by theory.

The system Clark laid out for himself included a succession of books, one dealing primarily with static theory, a second with dynamics and a third with statistical material. When I first knew him he contemplated a fourth work which should draw the whole system together.

The first part of Clark's system, the statics, was adequately worked out in his *Distribution of Wealth* published in 1899, and the second part more sketchily in the *Essentials of Economic Theory* published in 1907. The statistical part remained an unrealized aspiration, partly because Clark recognized that he was not well equipped for such work, partly because his scanty energies were drawn away to the movement for international peace.

As with other scholars of a transition period, Clark lived to see the main currents of economic thought setting away from the problems to which he had devoted his labors. The study of the phenomena of the business cycle engrossed the attention of the theoretically minded economist, as well as that of the statis-

tician. Price analysis replaced value analysis. Money and credit, merely assumed among the premises of Clark's system, loomed as dynamic factors of transcending importance. Statistical studies assumed a commanding place, but in the service of other issues than the measurement of dynamic forces as analyzed in Clark's system.

It is hardly possible for the present-day student of economics to conceive the excitement aroused at the turn of the century by the appearance of the *Distribution of Wealth*. The debates that filled the economic periodicals and occupied the meetings of the American Economic Association read strange and remote today. Mostly the material appears obvious. Why all this pother about the productivity theory of interest *v.* future discount theory, utility theories of value *v.* cost theories?

The reason why we do not read today the books of Clark and the other valiant theorists of 1900 is that they did their work so well. Their valid conclusions entered into the substance of contemporary economic thinking, where it functions like innate habits of mind. If anyone tries to read Laughlin's *Mill*, or even Nicholson, he will note an entirely different atmosphere. This is outmoded, Clark is self-understood.

It is a tribute to the economists of the storm and stress period, when our American branch of the science was growing up out of colonial infancy to adult stature, that so modest and unassuming a scholar as John Bates Clark was by universal consent accorded the premier position in American economic theory. He developed no school of disciples to follow him through thick and thin, but he wanted no such disciples. He made no claims to originality of doctrine, but his contemporaries accorded him rightfully credit for the highest measure of originality. He avoided contention wherever possible, but his work engaged American economic theorists in contentions lasting through a decade, friendly contentions that wrought out something not far from an agreement on general questions of theory and cleared the way for the more realistic studies of the decades to follow.

ALVIN JOHNSON

*New School for Social Research*

## NOTES

The next annual meeting of the AMERICAN ECONOMIC ASSOCIATION will be held in Detroit, December 28-30.

The following names have been added to the membership of the AMERICAN ECONOMIC ASSOCIATION since February 1:

- Adams, G. P., Jr., 730 Spruce St., Berkeley, Calif.  
 Bailer, L. H., 6063 30th St., Detroit, Mich.  
 Bain, F., School of Business, Univ. of Kansas, Lawrence, Kan.  
 Barnes, I. R., 93A Yale Station, New Haven, Conn.  
 Barnett, P., University of Tennessee, Knoxville, Tenn.  
 Beneke, H. H., Miami University, Oxford, Ohio.  
 Bengston, K. J., 1400 Market St., Burlington, Iowa.  
 Bohan, R., 725 Washington Blvd., Terre Haute, Ind.  
 Bowers, R., Western State Teachers College, Kalamazoo, Mich.  
 Briefs, G. A., 4 Kenilworth Dr., Chevy Chase, Washington, D.C.  
 Burns, A. R., Columbia University, New York City.  
 Bursiek, R. C., Commerce Dept., University of Cincinnati, Cincinnati, Ohio.  
 Butters, J. K., 33 Sacramento St., Cambridge, Mass.  
 Curtis, L. S., 4459 Enright Ave., St. Louis, Mo.  
 Delaplane, W. H., Box 4811 Duke Station, Durham, N.C.  
 Ding, E., Fukien Christian College, Foochow, China.  
 Dixon, F. J., Commercial High School, Regina, Saskatchewan, Canada.  
 Doherty, R. P., Boston University, 525 Boylston St., Boston, Mass.  
 Duffy, J. L., Holy Cross College, Worcester, Mass.  
 Faust, L., School of Business, University of Kansas, Lawrence, Kan.  
 Franklin, E. C., Am. Assoc. of Univ. Women, 1634 I St. N.W., Washington, D.C.  
 Froehlich, W. H., 1216 9th St. N.W., Washington, D.C.  
 Gayer, A. D., Columbia University, New York City.  
 Ginsberg, S., 1844 Columbia Rd., Washington, D.C.  
 Haines, G. H., 139 State St., Grove City, Pa.  
 Handsaker, M., 4005 15th N.E., Seattle, Wash.  
 Herrold, L. D., 2210 Hartzell St., Evanston, Ill.  
 Hodges, J. R., A. and M. College, Monticello, Ark.  
 Howard, T. L., Bush Lodge, Kirkwood Ave., Knoxville, Tenn.  
 Janssen, H., Pennsylvania State College, State College, Pa.  
 Kacmarynski, L. F., College of New Rochelle, New Rochelle, N.Y.  
 Karger, J., 945 Aldus St., New York City.  
 Kebker, V. W., 515 5th Ave. S.E., Minneapolis, Minn.  
 Kjellstrom, E. T. H., Georgetown University, Washington, D.C.  
 Kogel, G., 1724 President St., Brooklyn, N.Y.  
 Laing, G. A., California Institute of Technology, Pasadena, Calif.  
 Larkin, G. R., 315 N. Stratton St., Gettysburg, Pa.  
 Luchek, A. S., Dept. of Econ., University of Michigan, Ann Arbor, Mich.  
 Lukaczer, M., 846 Hewitt Pl., Bronx, New York City.  
 McCaffrey, W. T., c/o C. H. Maltby, 104 S. Salina St., Syracuse, N.Y.  
 McGuire, J. A., 415 Commerce Bldg., University of Illinois, Urbana, Ill.  
 McIntyre, F. E., Cowles Comm. for Res. in Econ., Colorado Springs, Colo.  
 Mason, W. E., 1525 S.W. 10th Ave., Portland, Ore.  
 Mattioli, R., via Bigli 15, Milan, Italy.  
 May, A. B., Simmons College, Boston, Mass.  
 Miller, B. O., Virginia Polytechnic Institute, Blacksburg, Va.  
 Moloney, J. F., 1411 Santa Fe Bldg., Dallas, Tex.  
 Morgan, J. D., 411 W. Nevada, Urbana, Ill.  
 Moriarty, J. S., 311 U. S. Customhouse, San Francisco, Calif.  
 Nelson, E. G., Stanford University, Calif.  
 Nortman, P. B., 600 W. 162nd St., New York City.  
 Nulsen, R. H., 9910 Robbins Dr., Beverly Hills, Calif.  
 Page, A. C., 314 Collins St., Hartford, Conn.  
 Palmer, P. F., 424 Commerce Bldg., University of Illinois, Urbana, Ill.

- Phillips, W. J., Jr., 33 Washington Sq. S., New York City.  
 Richards, J. R., Wayne University, Detroit, Mich.  
 Rosenthal, R. L., Werthein and Co., 120 Broadway, New York City.  
 Sawwaf, H. A., American University of Beirut, Beirut, Lebanon.  
 Schwartz, C. H., Jr., Farm Credit Admin., Washington, D.C.  
 Shea, J. W., Pennsylvania State College, State College, Pa.  
 Shores, W. F., Bryant College, Providence, R.I.  
 Simons, H. C., University of Chicago, Chicago, Ill.  
 Sims, L. B., Graduate School of Public Admin., Harvard University, Cambridge, Mass.  
 Sobel, H. R., 685 West End Ave., New York City.  
 Spurr, W. A., College of Bus. Admin., University of Nebraska, Lincoln, Neb.  
 Stiles, L. A., 919 Reba Pl., Evanston, Ill.  
 Struve, L. W., Babson Park, Fla.  
 Teper, L., Ladies' Garment Workers' Union, 3 W. 16th St., New York City.  
 Tousley, R. D., University of Akron, Akron, Ohio.  
 Tuthill, J. W., 11c Shaker Lane, Cambridge, Mass.  
 Ullman, A., 281 Columbus Ave., Boston, Mass.  
 Vance, R. B., Box 495, University of North Carolina, Chapel Hill, N.C.  
 Van Pelt, H. W., 34 N. 19th St., Harrisburg, Pa.  
 Van Sant, E. R., Box 524, State College, Pa.  
 Vatter, H. G., 685 West End Ave., New York City.  
 Wallin, Z. B., School of Commerce, Oklahoma A. and M. College, Stillwater, Okla.  
 Walther, H. O., 65 W. Jackson Blvd., Chicago, Ill.  
 Waters, R. H., Pennsylvania State College, State College, Pa.  
 Whitwright, G. M., 119 Payson Ave., New York City.  
 Wood, R. C., 509 W. 121st St., New York City.

The allied social science associations are being served by the following officers during the present year:

- AMERICAN ECONOMIC ASSOCIATION—Professor Alvin H. Hansen, Harvard University, president; Professor James Washington Bell, Northwestern University, secretary.  
 AMERICAN STATISTICAL ASSOCIATION—Dr. R. H. Coats, Dominion Statistician, Dominion Bureau of Statistics, Ottawa, president; Dr. Frederick F. Stephan, 722 Woodward Bldg., Washington, D.C., secretary.  
 AMERICAN POLITICAL SCIENCE ASSOCIATION—Professor Clarence A. Dykstra, University of Wisconsin, president; Professor Kenneth Colegrove, Northwestern University, secretary.  
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 TAX POLICY LEAGUE—Mr. Harold S. Buttenheim, 470 Fourth Ave., New York City, president; Miss Mabel L. Walker, 309 E. 34th St., New York City, secretary.  
 ECONOMETRIC SOCIETY—Professor Arthur L. Bowley, Marley Hill, Haslemere, England, president; Mr. Alfred Cowles, 3rd, Cowles Commission, Colorado Springs, secretary.  
 INSTITUTE OF MATHEMATICAL STATISTICS—Professor B. H. Camp, Wesleyan University, president; Professor Allen T. Craig, University of Iowa, secretary.

Complete sets of *Social Science Abstracts* for the four years from 1929 to 1932, inclusive, during which it was published, may be obtained from the Social

Science Research Council upon payment of express and handling charges. These charges, to be paid at the time the request is made, amount to \$1.00 anywhere in the United States except California, Oregon and Washington, where the amount will be \$1.50. For Canada the charge will be \$3.00, and for other foreign countries, \$4.00. Communications should be addressed to the Social Science Research Council, 230 Park Avenue, New York City.

The Food Research Institute at Stanford University will offer a number of courses in 1938-1939, largely for graduate students. In the autumn quarter Joseph S. Davis, director and professor of economic policy, will offer a course on methods of economic research; Merrill K. Bennett, professor of economic geography, a seminar in agricultural geography; and Holbrook Working, professor of prices and statistics, a course in commodity prices. In the winter quarter these three professors will jointly give an introductory course on the world's food; Karl Brandt, professor of agricultural economics, a course in agricultural policy; and Dr. Working a seminar on prices. In the spring quarter Dr. Working will continue his seminar, Dr. Bennett will give a course in American agricultural policy, and Dr. Brandt one on foreign agricultural policies. Research guidance will be offered by those mentioned and by Vladimir P. Timoshenko, associate economist.

A special investigating committee has been appointed by the Twentieth Century Fund to make a study of the practice of short selling. Among the members are Henry I. Harriman, chairman, O. M. W. Sprague, Carle C. Conway, Henry Bruere, Alvin S. Johnson, Frederick R. Macaulay, Frederick C. Mills, Donald M. Nelson and William S. Wasserman.

The department of political economy of the University of Toronto celebrated its fiftieth anniversary by a series of lectures. Among those who took part were J. M. Clark, A. P. Usher, C. A. Ashley, H. R. Kemp, E. J. Urwick, R. M. MacIver, Jacob Viner, R. M. Dawson, H. A. Logan, Chester Martin, W. A. Mackintosh, H. A. Innis.

Dr. A. R. Upgren of the University of Minnesota addressed the twenty-fifth annual extension conference at Iowa State College, Ames, Iowa, on March 8 and 9. His subjects were "What Are the Aims of a Good Monetary Policy?" and "How Can the Federal Reserve System and the Other Fiscal Activities of the Government Best Carry out a Sound Monetary Policy?"

A business conference on industrial relations was held at Stanford University under the auspices of the Graduate School of Business, March 21-25. This conference was attended by approximately 140 business executives of the Pacific Coast. A second conference will be held for business executives July 18-22.

The second annual Pacific Northwest Conference on Banking was held at the State College of Washington, Pullman, April 7-9. Among the papers presented were "The International Aspects of the Recovery Problem," by Clement Åkerman; "A Perspective of Banking and Business in 1938," by J. M. Barker; "Changes in the Fundamental Character of the Banking System," by R. B. Heflebower; "Developments in the Bond Market since January, 1937," by Carl S. Dakan. All of the papers will appear in the published *Proceedings*.

The fifth annual meeting of the Mid-West Economics Association was held at Davenport, Iowa, April 14-16. The following papers were presented: "Labor Displacement by Machinery," by F. B. Garver; "Wage Theories," by P. H.

Douglas; "Fair Prices, Past and Present," by Philip G. Fox; "Legislative Attacks on Mass Distribution," by J. M. Klamon; "Taxation of Corporate Surplus," by Jens P. Jensen; "Taxes on Corporate Gains and Losses," by H. M. Groves; "Coöperative Agricultural Credit and the Government," by E. C. Young; "Economic Aspects of Soil Conservation," by W. W. Wilcox; "The Decline of Competition," by M. M. Bober; "Theory of Monopolistic Competition and Public Policy," by R. S. Howey; "Moulton's Theory of Depression," by J. E. Kirshman; "Harrod's Theory of Depression," by W. C. Cleveland; "The Present Depression and Business-Cycle Theory," by R. H. Blodgett; "Recent Developments in the Study of Economic History," by Herbert Heaton.

The following officers were elected for the coming year: president, John Ise, University of Kansas; vice-president, W. B. Taylor, University of Wisconsin; secretary-treasurer, C. W. Thompson, University of Iowa.

The twentieth annual meeting of the American Association of Collegiate Schools of Business was held at the University of Illinois, April 21-23.

Dr. H. C. Grant of the University of Manitoba addressed the Minnesota Statistical Society on April 21, discussing "Stresses and Strains in the Canadian Economy."

The third annual Illinois Conference on Economic Progress was held in Peoria May 6-7. Among the topics discussed were the future of railroads and the tax problem in Illinois.

At a meeting of the third annual Conference on Current Government Problems held at the Massachusetts State College, Amherst, May 13-14, Professor K. M. Williamson of Wesleyan University spoke on "New Sources of State and Local Revenue."

The Canadian Political Science Association held its tenth annual meeting in Ottawa, May 23-24. Among the subjects discussed were "Canada's Budgetary System and Financial Control," by W. C. Clark; "The Administration of the Canadian Income Tax," by C. F. Elliott; "Competitive Aspects of Road and Rail Freight and Passenger Rates," by J. B. Rollit. Round Tables were held dealing with "Agriculture Income," "Re-Sale Price Maintenance," "Real Wages in the United States and Great Britain."

The third Public Housing Survey Tour under the leadership of Helen Alfred, from June 29 to August 3, will cover England and Scotland. Information may be obtained by writing to the National Public Housing Conference, 112 East 19th Street, New York City.

The fifth annual Conference on Business Education will be held at the School of Business, University of Chicago, June 30-July 1. The following topics are on the program: "Interpretations of Business as a Social Institution," participated in by George M. Harrison, Brotherhood of Railway Clerks, and Paul H. Nystrom, Columbia University.

The twelfth annual session of the Institute of Public Affairs will be held at the University of Virginia, Charlottesville, July 3-July 16. A program may be obtained from the director, Dr. Charles Gilmore Maphis, University of Virginia.

The fourth annual research Conference on Economics and Statistics of the Cowles Commission for Research in Economics will be held at Colorado Springs,

July 5-29. Programs relating to the Conference may be obtained by writing to the Commission at Colorado Springs.

The Summer Institute for Social Progress at Wellesley will hold its annual conference July 9-23. Dr. John Stewart Burgess, head of the department of sociology at Temple University will head the faculty. The 1938 theme is "What Part Can a Citizen of the United States Play in the World Situation?" Programs may be obtained by writing to Dorothy P. Hill, Institute Director, Wellesley College, Wellesley, Mass.

The fourth annual Region Business Education Conference will be held at the School of Commerce, University of Denver, July 22-23. The subject will be "Integration in Business Education."

The seventh International Management Congress will be held at Washington, D.C., September 19-23. At the General Sessions, addresses will be given in pairs to introduce the American and foreign points of view on social and economic aspects of management. The Technical Sessions will include no oral presentation of papers, but will provide for the discussion of papers which have been pre-printed and distributed to registrants. Further information may be obtained from the executive secretary, Mr. Nathaniel W. Barnes, Room 1201, 347 Madison Ave., New York City.

#### *Appointments and Resignations*

A further error was made in the December issue (page 880) in stating that James A. Ross is assistant professor in the department of economics at Syracuse University. Mr. Ross is professor of economics.

Francis Babione of Ohio State University has been placed in charge of the work in economics and business administration at Bluffton College, Ohio.

Andrew Barr has been granted a two-year leave of absence from Yale University.

Percy W. Bidwell, chairman of the department of economics at the University of Buffalo, has been given leave of absence for the academic year 1938-39 in order to undertake the organization of a new development in the research of the Council on Foreign Relations.

Raymond F. Blackburn of the School of Business Administration of the University of Pittsburgh has been advanced from the rank of assistant professor of statistics to that of associate professor.

Karl F. Bode, who has been serving as lecturer in economics at Stanford University during the current year, has been appointed assistant professor of economics at that institution.

A. B. Brady of the University of Toronto has been granted leave of absence to study the problems of democracy in the British Empire.

Karl Brandt, formerly director of the Institut für Landwirtschaftliche Marktforschung, Berlin, and since 1933 professor of agricultural economics at the New School for Social Research, New York City, has been appointed economist and professor of agricultural economics at the Food Research Institute, Stanford University.

R. P. Brooks, dean of the School of Commerce of the University of Georgia, has been made director of the new Institute for the Study of Georgia Problems.

Douglass V. Brown is assistant professor in the industrial relations section at Massachusetts Institute of Technology.

Malcolm H. Bryan has resigned as professor of economics at the School of Commerce of the University of Georgia to accept a vice-presidency in the Federal Reserve Bank in Atlanta, Georgia.

Norman S. Buck has been made dean of freshmen at Yale University and will continue teaching in the department of economics.

Abram Burk, instructor in economics and tutor in the division of history, government and economics at Harvard University, has been awarded a Sheldon Travelling Fellowship for next year to travel in Russia.

T. N. Carver will be visiting professor of economics at Northwestern University during the 1938 summer session.

Arthur G. Coons, dean of men and professor of economics at Occidental College, has resigned to become professor of economics in the graduate school division of Claremont Colleges.

W. M. Duffus of Ohio State University will teach courses in transportation and marketing at the summer session of the University of Tennessee.

Acheson J. Duncan has been promoted to the rank of assistant professor of economics at Princeton University.

E. Kingman Eberhart has been advanced from the rank of instructor in economics to that of assistant professor in the School of Business Administration at the University of Pittsburgh.

J. Franklin Ebersole, professor of finance at the Harvard Graduate School of Business Administration, is devoting part time to an experimental course, designed to combine business and legal training in banking, as visiting lecturer during the second semester in the School of Law of Yale University.

Howard S. Ellis of the University of Michigan has been appointed professor of economics at the University of California at Berkeley.

Fred Dow Fagg, Jr., formerly director of the Bureau of Air Commerce of the United States Department of Commerce, has been appointed dean of the School of Commerce of Northwestern University.

Allan J. Fisher, formerly instructor in accounting at the University of Pittsburgh, is assistant professor of economics at the American University, Washington, D.C.

L. Thomas Flatley has resigned as associate professor of finance in the College of Commerce at the University of Notre Dame to become professor of economics and finance at Mundelein College, Chicago.

J. Wesley Fly has been appointed instructor in accounting at the University of Florida for the second semester of the current academic year.

Bertrand Fox of Williams College will teach a course in statistics at Northwestern University in the summer session of 1938.

Morris Friedberg has been promoted to the rank of associate professor of economics at Simmons College.

Richard Glenn Gettell has been appointed instructor in the department of economics at Yale University.

Robert A. Gordon has been appointed assistant professor of economics at the University of California at Berkeley.

Gilbert Harold, formerly at Ohio State University, is associate professor of economics at the University of Oklahoma.

Alvin S. Johnson has been appointed part-time professor in the Graduate School at Yale University.

Lewis K. Johnson, assistant professor of marketing and management at Washington and Lee University, will spend the coming academic year in graduate work at Ohio State University.

Spencer A. Larsen resigned from the staff of the University of North Dakota to accept a position at Wayne University, Detroit.

Richard A. Lester of Princeton University has accepted an assistant professorship in the College of Economics and Business of the University of Washington, Seattle, Washington.

J. W. Lucas of Ohio State University has been appointed to an associate professorship of business administration at the University of Omaha.

Samuel J. Lukens, instructor in commerce in the School of Business Administration at the University of Pittsburgh, has been advanced to the rank of assistant professor.

Walter B. McFarland of Stanford University has been appointed instructor in the department of economics at Yale University.

D. C. MacGregor of the University of Toronto has been granted leave of absence to join the research staff of the Royal Commission on Dominion-Provincial Relations.

Glenn E. McLaughlin, assistant professor of industrial research and economics in the School of Business Administration, University of Pittsburgh, has been advanced to the rank of associate professor.

Fritz Machlup of the University of Buffalo will offer two courses in the School of Commerce of Northwestern University during the summer session.

Hilary A. Marquand of the University College of South Wales will interchange posts with Professor Selig Perlman of the University of Wisconsin for the coming academic year.

James A. Maxwell, professor of economics at Clark University, through the collaboration of the Carnegie Corporation and the University of Melbourne, has been appointed Research Fellow at the University of Melbourne from April until August, 1938.

B. A. May of Simmons College, Boston, Massachusetts, has been appointed to teach economics in the first term of the summer school of the University of Denver.

Eliot G. Mears, on sabbatical leave from Stanford University, delivered a series of five lectures in February at the Institut Universitaire de Hautes Etudes Internationales at Geneva.

Oskar Morgenstern of the University of Vienna and director of the Österreichisches Institut für Konjunkturforschung, has been a visiting Carnegie Professor at the department of economics of the University of Wisconsin for the month of April.

Eugene A. Myers, graduate student assistant in economics in the School of Business Administration, University of Pittsburgh, has been advanced to the rank of instructor in economics.

Elroy Nelson, director of the School of Business Administration and professor of economics at Russell Sage College, New York, will teach in the summer session at the School of Commerce of the University of Denver.

Eugene E. Oakes of Harvard University has been appointed an assistant professor in the department of economics at Yale University.

Selig Perlman of the University of Wisconsin will interchange posts with Professor Hilary A. Marquand of the University College of South Wales for the coming academic year.

Clyde William Phelps, head of the department of economics at the University of Chattanooga, has been appointed consultant to the Tennessee State Committee on Public Assistance and Direct Relief.

L. B. Raisty has returned to his post as professor of accounting in the School of Commerce of the University of Georgia, after a leave of absence in which he directed a WPA project concerned with county finances in Georgia.

Ralph E. Reynolds of the University of Southern California has been appointed associate professor of marketing and management at the University of North Dakota.

Lloyd P. Rice of the department of economics at Dartmouth College has accepted from President Quezon an appointment as financial advisor to the Philippine Government from June, 1938, to September, 1939.

William J. Schlatter of the University of California has been appointed instructor in the department of economics at Yale University.

Fred A. Shannon, winner of a Pulitzer Prize award in history in 1939 and professor at Kansas State College, has been named visiting professor in economics at Williams College.

Sumner H. Slichter of Harvard University will be a part-time lecturer in the Graduate School at Yale University during the second term of next year.

Elliott D. Smith has been granted a leave of absence from Yale University for the second half of the academic year 1938-1939.

James G. Smith has been promoted to the rank of professor of economics at Princeton University.

Marion Parris Smith, who has been a member of the department of economics and politics at Bryn Mawr College since 1907 and head of the department since 1916, resigns at the end of the present academic year.

H. K. Snell of the University of Southern California has been appointed a member of the summer quarter faculty in economics at Stanford University.

Kenneth M. Spang of Bard College has been appointed an instructor in the department of economics at Yale University.

Mrs. Paul Sweezy (Maxine Yable) has been appointed instructor in the department of economics at Tufts College for the year 1938-1939.

Howard M. Teaf, instructor in economics at Haverford College, has been advanced to the rank of assistant professor.

Willard B. Van Houten of Brown Brothers, Harriman and Company has been appointed an instructor in the department of economics at Yale University.

Clarence L. Van Sickle, associate professor of accounting in the School of Business Administration at the University of Pittsburgh, has been advanced to the rank of full professor.

Edith Vietch has been appointed a member of the faculty at the School of Commerce, University of North Dakota, with a rank of associate professor.

W. Allen Wallis, instructor in economics at Yale University, has accepted an appointment as assistant professor of economics at Stanford University. He will offer courses in economic statistics and economic theory.

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The American SEP 6 1938

# Economic Review

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SEPTEMBER, 1938

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